Organizational Culture Impact on Strategic Management

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Abstract

This paper focuses on the impact that organizational culture has on strategic management in terms of performance of the organization. We analyzed the relationship between the two concepts and how one influences the other.

Corporate culture consists in competitive advantage for a business, leading it for success, motivating employees and make their work most effective, at its best, or it can lead to failure, at its worst. Organizational culture can influence actions, decisions and opinions. Every business has a specific way of working that commits to its culture. Strategic management refers to a process of developing goals, a mission and a vision, values and duties that will lead to the organization's success. Main assets of an organization that lead it to proper functioning are its employees and the organizational culture is the one that gives it the uniqueness and creates its brand image. The absolute compatibility between the strategic and cultural path is in the organizational alignment.

Key words: organizational culture, strategy, strategic management
J.E.L. classification: G380, M140, M480,

1. Introduction

The attempt of defining the organizational culture, leads us to human resource, and as business environment is increasingly internationalized, the organizational resource, in terms of human capital derives from different societal environments, owns ideas, beliefs and emotions taken individually and also shared with others, enriched or replaced with the help of habits and rules within the organization. Corporate culture stays at the origin and application of each strategy. Strategic management refers to entire set of decisions and actions made to create and implement plans and strategies in order to realize the organization's objectives.

The result of a strong corporate culture resides from a cumulous of contributions from different actors of the organization: the regulation (governance framework, state regulations that would lead risk appetite and risk tolerance, risk management and internal control function), the internal and external audit (assessing and providing assurance over risk and independent opinion about existent and desired culture), the board (in charge with ethical framework, dictates the tone from the top), senior management (implements and oversees the culture), human resources (shape and enhance the changes in culture and align it through trainings, recruitment, compensation and benefits, performance management) and risk management (supervise and mitigate risks and monitor risk appetite). Strategic management reflects the study, review, evaluation and choosing actions for formulating, implementing and evaluating strategies, to accomplish organization's mission and objectives.

2. Theoretical background: Organizational culture

The values, habits, beliefs, traditions and historic elements shape the corporate culture of an organization. Corporate governance of an organization influences the relations between the members of the organization, the board of directors, shareholders and stakeholders, but also elements of the corporate culture do. Stakeholders' commitment becomes the main factor in the organization's activity in terms of total involvement to understand their vision and interests and to accomplish sustainable development objectives and future development challenges.

Corporate culture sums up the invisible platform that runs the organization, meaning the values, principles, behaviors, emotional commitment. At the same time, organizational culture grants unity and continuity.

In an international organization one can find a variety of incompatibilities between the organizational culture promoted by the business and the national cultural specificity.

Schein (1996) claims that in a context where organizational culture is the strongest force of a company, the leaders of the organizations play a major role in encouraging inter-organizational cultures. Schein likewise proves that culture draws the behavior of a certain group, just as nature draws the people behavior. (Schein, 1985)

We can affirm that organizational culture is the personality of the organization, its features being reflected in the behavior of its members, unconsciously.

Culture plays a significant role in risk management and risk appetite and can contribute in a positive way to organization's competitive. Managers use organizational culture as a tool to lead and control the strategic management behaviors; it's wise to use corporate culture to influence and train the mindset and attitude of employees, gain their support on the organization's regulations and procedures and slow down resistance to change.

A strong organizational culture, strategy oriented, influences in a positive manner the working behavior, energy, enthusiasm of the employees and therefore, their working capability and competence, attracts people to join the organization and reduces the staff costs with hiring and training, because, obviously, culture is about doing than saying. Corporate culture is formed of emotional resources, than means that when employees are happy and feel supported, they begin to treat customers and partners better.

Main factors that can influence the organization's risk culture are:

- ✓ appropriate governance,
- ✓ leadership,
- ✓ practice what is preached - so applying principles,
- ✓ productive communication,
- ✓ recruitment (avoiding toxic employees) and
- ✓ incentives (a focus on profit might encourage unethical behavior).

A powerful culture comes from finding motivation above the bounds of profit. The purpose that gathers employees and shareholders together must be higher than cash.

3. The relationship between culture and strategy

There is a strong link between corporate culture and strategic management. A company is managed and strategic decisions are made using the same values, beliefs and principles set through the organizational culture.

Strategy sets the direction and focus, elaborates plans and formal environment for employees to understand the organization's goals, while culture helps accomplishing goals by encompassing them in the organization's shared values and beliefs. The vision of the organization needs to be first assimilated in the culture. A strategy can only be implemented it is backed by the corporate culture.

The company sets the headline of its story through the strategy and the language through culture. Intention is given by strategy and culture sets and measure the aspiration, the commitment, the performance.

Corporate culture will impact the way a leader expresses his vision to other members of the organization as well as gaining support for implementing new strategies. Strategy gives the direction and culture sets the way you make your trip until destination positive, negative, challenging, funny, painful.

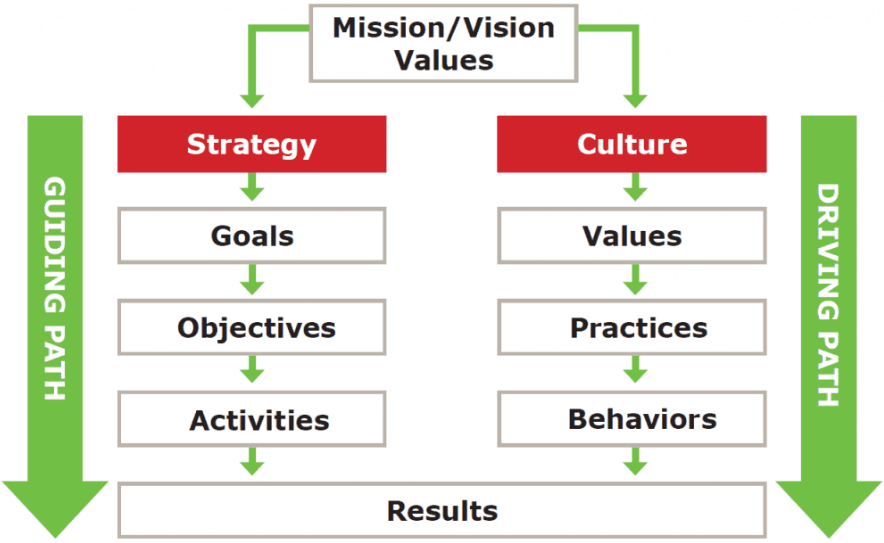
According to Torben Rick corporate activity is shaped through culture and strategy and works at its best when values, policies, strategies and practices are harmonized.

Just like in a symphony orchestra, where different family of instruments are mixed, standing alone or grouped on different sections, employ various players and all under the command of a conductor who unifies them and sets the sound of an ensemble, corporate culture needs to unify its instruments to work out:

- ✓ behaviors
- ✓ relationships
- ✓ attitudes
- ✓ values
- ✓ environment (Rick, 2013)

When an alignment is formed between organizational culture and strategic management, the organization wins a competitive advantage in global market. The strategic plan needs to be constant with culture and the board has the mission to set the risk appetite and risk tolerance for the organization. Management is responsible for adopting and monitoring culture after it is agreed by the board, aligning it to the business strategy. Also is management responsibility to ensure trainings for staff on ethics, culture, risk management due diligence so they would understand and apply them.

Figure no. 1. The alignment between strategy and culture



Source: (Rick, 2013) https://www.torbenrick.eu

The strategic way dictates what it should be done and culture highlights the normal way to be done. Best results in company's performance consists in the alignment of both.

An poor corporate culture can lead to disengagement of employees, decreasing business performance and customers' satisfaction. Corporate culture lies at the base of financial crisis and many business failures, such as: Enron, BP Oil Spill, Toshiba, Volkswagen, Wells Fargo and Olympus.

4. Conclusions

In order to achieve consistency in the organizational behavior it is important to create a governance environment with rules and regulations that encompass an ethical foundation to be considered when taking decisions affecting the organization, that will provide guidance no matter the nature of the decision. According to IIA (2017), the framework would be:

- ✓ easy to apply and consistent
- ✓ accurate

- ✓ constant in time
- ✓ comprehensible.

Main assets of an organization that lead it to proper functioning are its employees and the organizational culture is the one that gives it the uniqueness and creates its brand image. The absolute compatibility between the strategic and cultural path is in the organizational alignment.

One fundamental aspect regarding the organizational culture is the assurance that it is well known and applied and strategic management is respecting it. The way of verifying it is using internal and external audit. There are several indicators of culture failings, such as:

- ✓ pursue of immediate gains,
- ✓ examine and still violating the spirit of laws and regulations,
- ✓ consider risk management control disturbing and neglecting it when it is advantageous to do it,
- ✓ defective explanation for managerial responsibility for risks and avoiding to reward good risk management and applying penalties for mismanagement of risks,
- ✓ disguising problems instead of discovering the roots of the problems, etc.

Internal audit can bring assurance over the organizational culture in terms of desired culture – checking if it is well formulated and broadcasted and implemented in the entire organization and how management measures and monitors the culture. Finally, internal audit can assess the existing state and desired organizational culture. External auditors need to understand the control environment, this could be translated in realizing if management developed and cultivated a culture encouraging honesty and ethics.

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