THE IMPORTANCE OF CORPORATE CULTURE

Fomina Tetiana
Student of Economics and Law Faculty
Simon Kuznets Kharkiv National University of Economics,
Kharkiv, Ukraine
Scientific advisor** – Senior lecturer **Agadzhanova Radmila Mykhailivna

The article analyzes the importance of corporate culture for businesses. It also considers the impact of corporate culture on the business environment. It is proved that a healthy corporate culture improves the performance of a business in a number of areas.

Key words: corporate culture, organizational culture, business environment, behavior, strategy, company performance.

In the past decade, corporate boards have recognized the need to improve their oversight of critical levels of business performance such as strategy, risk, major transactions, and people − including succession planning and executive compensation. And they have adopted more rigorous and transparent processes around these levels. One level of performance, however, which rarely appears on board agendas, is culture. Despite its sizable contribution to business results, few boards oversee culture with anything like the rigor they do strategy, risk, or CEO succession planning. A company’s culture can make or break even the most insightful strategy or the most experienced executives. Cultural patterns can produce innovation, growth, market leadership, ethical behavior, and customer satisfaction. On the other hand, an unhealthy or misaligned culture can impede strategic outcomes, erode business performance, diminish customer satisfaction and loyalty, and discourage employee engagement. To study the potential effect of culture, we need to be clear on why this culture might matter. Think about a firm with a reputation for impeccable customer-care. Both managers and employees are tempted to save on the effort necessary to provide the best care. Offering the best effort is costly and the probability of being detected is minimal, especially if the shirking is only partial: it is hard to prove that the care was only slightly subpar. Culture is the culmination of the shared values, beliefs, and assumptions that shape the behavior of the organization − the “unwritten rules” that guide the thousands of decisions employees make throughout the company every day.

Corporate culture is the personality of the organization: the shared beliefs, values and behaviour of the group. It is symbolic, holistic, and unifying, stable, and difficult to change. There are several definitions of corporate culture. One view is that culture represents the unspoken code of communication among members of an organization. A related view is that culture is a convention that helps coordination, like which side of the road we drive on [1].

Made up of both the visible and invisible, conscious and unconscious learnings and artefacts of a group, culture is the shared mental model. This model is taken for granted by those within the group and is difficult for outsiders to decipher. It is important to remember that corporate culture is not the ideals, vision, and mission laid out in the corporate marketing materials. Rather, it is expressed in the day-to-day practices, communications, and beliefs. According to Borgatti, a strong culture is internally consistent, widely shared, and makes it clear what appropriate behavior is, resulting in an organization with a vision that everyone understands, to which everyone is committed [2].

Corporate culture can also be looked at as a system with inputs from the environment and outputs such as behaviour, technologies and products. It is dynamic and fluid, and it is never static. Culture may be effective at one time, under a given set of circumstances, and ineffective at another time. There is no generically good culture. There are however, generic patterns of health and pathology [3].

According to Business Open Learning Archive, culture is the shared beliefs, values and norms of a group and it includes:

- the way work is organised and experienced;
- how authority exercised and distributed;

- how people are and feel rewarded, organised and controlled;
- the values and work orientation of staff;
- the degree of formalisation, standardisation and control through systems there is/should be;
- the value placed on planning, analysis, logic, fairness etc;
- how much initiative, risk-taking, scope for individuality and expression is given;
- differential status, etc. [4].

Corporate culture is a hidden mechanism of coordination directing each individual towards the common goal. The goal and the ways of achieving the goal cannot be changed without understanding key attractors and drivers in the culture. The causes of many profitability and responsiveness issues in corporations are not found in the structure, in the leadership, or in the employees. The problems are found in the cultures and sub-cultures of the organization.

Understanding organisational culture leads to:

1. Hiring employees that will succeed in the organization (lowering recruitment, development, and human resource maintenance and management costs).

Organizational culture affects the type of people employed, their career aspirations, educational backgrounds, and status in society [4]. The only trustworthy predictor of on-the-job success is how closely an individual’s work habits match the organizational culture [5].

2. Creating policies and assignments to increase profitability and respond to market demands.

Having a firm grasp of a company’s culture and its nuances gives an executive the edge. New policies and assignments should consider the organizational culture and be communicated in a manner congruent to the existing work strategies and beliefs. Learning how to communicate to the above listed tendencies can give an executive enormous power [5]. If the organization wants to maximize its ability to attain its strategic objectives, it must understand if the prevailing culture supports and drives the actions necessary to achieve its strategic goals [1].

3. Making significant changes to the corporation in response to real threats to its continued existence.

Understanding and assessing your organization's culture can mean the difference between success and failure in today's fast changing business environment [1]. Many companies have turned themselves around converting imminent bankruptcy into prosperity. Some did it through financial gimmickry, but the ones who have become stars did it by changing their own culture [6]. The power of cultural change is strong − strong enough to turn an aging dinosaur into a state-of-the-art profit-maker. Because people working in different cultures act and perform differently, changing the culture can allow everyone to perform more effectively and constructively [6].

4. Facilitating mergers, joint ventures, and acquisitions.

Being able to merge and reinvent corporate cultures plays a critical role in national and international takeovers, joint ventures and mergers. If the cultures cannot be merged or reinvented, then the business will fail [7]. Decisions to form joint ventures are made on economic grounds. Their failure to succeed relates to the key noneconomic factor, the corporate cultures involved.

5. Increasing profitability and growth.

Understanding, shaping, nurturing, and proclaiming cultural aspects can increase corporate profitability and growth. Companies that display specific facets of corporate culture grow 10 times faster than companies that do not [8].

To sum up, every organization, from small businesses to large corporations, has its own culture. Culture refers to the values and attitudes of employees. In a business with an unhealthy culture, employees act as individuals, performing their duties to meet their own needs, such as a paycheck or health benefits. Some companies have a team-based culture with employee participation on all levels, while other companies have a more traditional and formal management style. What role does culture play in the performance − or underperformance − of a business? A healthy corporate culture values each employee in the organization regardless of his job duties, which results in employees working as a team to meet the company’s and their own personal needs. A healthy corporate culture improves the performance of a business in a number of areas. Whether the goal is to sustain company performance or implement transformational change, the company culture must be aligned with the strategy, the organizational structure, and operational practices. Otherwise, performance is likely to suffer and strategic goals will be unmet. A framework for assessing organizational culture is rooted in the insight that a surprisingly limited set of rules can result in highly complex and diverse behavioral patterns. Culture can be a particularly important consideration for small businesses. A healthy company culture may increase employees' commitment and productivity, while an unhealthy culture may inhibit a company's growth or even contribute to business failure.

References:

1. Cremer Jacques. Corporate Culture and Shared Knowledge / J. Cremer. – Industrial and Corporate Change, 1993.
2. Organizational Culture [Electronic resource]. – On line – http://www.analytictech.com/mb021/culture1.html.
3. Organizational Culture: Understanding and Assessment [Electronic resource]. – On line – http://www.hcgnet.com/html/articles/understanding-Culture/html.
4. The Changing Corporate Culture [Electronic resource]. – On line – http://www.informanet.com/corpculture.html.
5. Giles Russ. Identifying and Influencing Organizational Culture [Electronic version] / R. Giles. – Online – http://www.informanet.com.
6. Organizational Culture. [Electronic resource]. – On line – http://www.toolpack.com/culture.html.
7. Reinventing Organizational Culture across International Boundaries [Electronic resource]. – On line – http://cbi.gsia.cmu.edu/newweb/1994WorkingPapers/94-3wilms/wilms.html.
8. E-business Eats up Culture. Kosan Lisa. // eWeek; 02/19/2001, Vol. 18 Issue 7, p. 58