

## **ORGANIZATIONAL CULTURE AND STRATEGY. HOW DOES IT WORK? AN EMPIRICAL RESEARCH**

**Vele Cristian-Liviu**

*Department of Economics, Faculty of Science, "Technical" University, Cluj Napoca,  
North University Centre Baia Mare, Romania  
cristian\_vele@yahoo.com*

**Abstract:** *Why do some companies fail in their efforts to implement competitive strategies? Why do others win in implementing competitive strategies? Of course the reasons behind every fail and every win are numerous and can be related to insufficient resources, lack of information, changes in the external environment, etc. But let's say that two companies, trying to implement a competitive strategy, have the necessary resources, information and the environment is relatively calm. Although the two companies have the same opportunity in implementing the strategy, only one is successful in its efforts, while the other fails. Why? One possible answer and one of the most plausible causes behind this fail is the resistance to change. Strategies are designed to increase the company's overall performance by strengthening its capabilities and core competencies and by eliminating the inefficient activities and processes. But, this phenomenon will change the way in which things are done inside the company. This, in term, will change the culture which defines that organization. Facing this threat, employees will try to maintain things as they were, while managers are trying to implement the new strategy to gain competitive advantages. As a consequence of this conflict, the new strategy will most likely fail in its implementation, causing negative effects on the company. This article wishes to provide a theoretical and empirical view on the importance of having a dynamic organizational culture designed to sustain new strategic initiatives. To underline this importance, an empirical study was conducted on several Romanian construction companies with the intent of revealing the correlations between a supportive culture and strategy. In conducting this study the main objective was to reveal if companies characterized by a supportive and dynamic organizational culture are more likely to have a strategy formulated and implemented.*

**Keywords:** *organizational culture, strategy, strategic management, construction industry*

**JEL classification:** *M14, L74, L20*

### **1. Introduction**

The business environment today is forcing the companies to focus their efforts onto gaining more clients and increasing the overall level of efficiency and performance. Thus, the quest to identify sustainable competitive advantages has become more important than ever before. According to Michael Porter (Porter, 1985, p. 1) competition is the most important element which influences the companies' success or fail, by dictating the action which must be taken regarding performance and innovation, organizational culture and efficient implementation of competitive strategies designed to position the company in a more favorable location on the

market.

## 2. Organizational culture

Organizational culture, according to Dess, Lumpkin and Eisner (Dess *et al.*, 2007, p. 323) can be defined as a system of shared values, representing the company's most important elements, and beliefs, representing the way in which things are done inside the company, that shape the employees, the organizational structure and control systems, in order to produce commonly accepted behavioural norms. Moreover the way in which people behave is influenced by the ideologies, symbols and core values shared throughout the company (Hitt *et al.*, 2006, p. 377). Thus, organizational culture consists of the way in which a group of people can be defined as a model of shared assumptions assimilated by all of its members as a consequence of solving the problems related to external adaptations and internal integration, and which has functioned well enough in order to be considered valid, and thus transmitted to new group members as the correct manner to perceive, judge and feel different problems (Schein, 2004, p. 17).

One of the biggest challenges faced by managers, in trying to fit the new strategy into the cultural context present inside the company, is how to analyze an intangible element like organizational culture. To overcome this problem, Tony Morden (Morden, 2007, p. 381) set up an analysis based on five main variables: *value judgement, vision, value system, behavioural standards and norms* and *perceptions regarding needs, priorities and wishes*.

*Value judgement.* Different behaviours are actively influenced by the employees' individual and shared judgements which are related to the company's mission, objectives and sets of values. These judgements are based on certain values, like focusing on the interests of clients, shareholders or stakeholders. These values and judgement values define and shape the priorities of the entire strategy formulation and implementation process.

*Vision.* Vision represents the main elements which connects and integrates the company's judgement values and ideologies. It is imperative for the vision to be formulated in such a manner in which to ensure a proper alignment between strategy and organizational culture.

*Value system.* The value system is comprised of the company's vision and value judgements, and represents the foundation onto which the company's mission, strategy and behaviours are defined and implemented inside the company.

*Behavioural standards and norms.* The norms and standards shape the employees' behaviour and their attitude, also influencing the manner in which they relate to their co-workers, their leadership style and the decision making process.

*Perceptions regarding needs, priorities and wishes.* By establishing the objectives related to sales, market share, quality, value chain management, risk management and ethics, the perceptions related to needs, priorities and wishes directly influence both the strategic formulation process and the decision making system.

According to Pearce and Robinson (Pearce & Robinson, 2007, p. 378-382) today's managers come across difficulties in understanding the relationship between organizational culture and the key factors which influence the success of the strategic actions taken by the company in order to gain competitive advantages. The core activities undertaken by the company are influenced by a series of key components, such as structure, employees, systems, managerial style, thus

implementing a new strategy requires managers to continuously adjust these components in order to meet the requirements set by the new strategy. Consequently, managing the organizational culture – strategy relationship requires a high level of attention in ensuring that the changes generated by the new strategic option are compatible with the existing organizational culture.

Although the need for change may be driven by a variety of reasons, which may include a downfall in financial results, government legislations, an increase in competition or the appearance of technological innovations, managers must, in all of these cases, alter the existing organizational culture in order to be able to implement the strategies required to increase the company's performance. One approach to changing the existing culture is a process of *unfreezing* and *refreezing* (Hannagan, 2007, p. 155). As a consequence of external pressure managers may feel that there is a need for change in the organization, in order to ensure its survival. The main issue, in this case, is how to convince everyone in the organization that change is needed and that the current culture needs *unfreezing*. At this stage the need for change is obvious, thus individuals should easily recognize and accept it. Unfortunately, there will be members in the organization who will refuse to accept and embrace the need for change, considering that the existing culture is the best way of conducting the day to day activities. In this situation, the leadership of the company must engage in a communication campaign design to foster the new values, attitudes and behavior. Also, the use of consultation and retraining can provide a useful mechanism in determining the personnel in accepting the necessary changes. Following this process, the new practices must be locked in place inside the organization as the new way of doing things. This is called *refreezing* and represents the final step in changing the organizational culture with a new one, designed to improve the company's performance and its competitive power.

In order to change the culture, in an efficient way, and ensure its total support for the new strategy, companies must undertake a series of main activities (McMillan & Tampoe, 2000, p. 234):

- ✓ Sell the new strategic intent.
- ✓ Interpret the existing organizational culture.
- ✓ Develop group decision-making skills.
- ✓ Introduce innovative mindsets that welcome change.
- ✓ Develop skills and knowledge base.
- ✓ Encourage staff to feel secure.
- ✓ Develop means of helping staff deliver consistent performance.
- ✓ Enable accessibility to management during periods of change.
- ✓ Encourage thinking that focuses on the outset world.

Due to the fact that organizational culture sets the behavior of employees, motivating them to achieve the company's strategic goals, it influences the effectiveness of the strategy formulation and implementation process. In order for the new strategy to gain sustainable competitive advantages, it must be implemented in an efficient manner and it has to be supported by all the members of the organization (Abass, 2003, p. 207). As a consequence, managers must link the strategy with the existing organizational culture, if it is possible, and also, they have to create and sustain a flexible and dynamic culture throughout the organization. This is necessary, in case the new strategy brings significant changes at a cultural level. Having a flexible culture ensures a more efficient adaptability of the entire personnel to the new goals

and activities. More, a dynamic culture will actively support the implementation of the new strategy and will encourage everyone not only to match the strategic goals, but to overpass them.

### 3. Strategy

Choosing the right strategy represents one of the key elements in strategic management, companies focusing solely on their own future and the means to cope with the numerous external influences and pressures. Also, it is very important for the new strategies to lead to sustainable competitive advantages. In order to achieve this, they have to be realistic in evaluating the external influences and, also, the internal capabilities and core competencies (Johnson & Scholes, 1999, p. 255, Dikmen *et al.*, 2009, p. 291). In order to be sustainable, Aras and Crowther (Aras & Crowther, 2010, p. 568) emphasize four main aspects which need to be recognized and analyzed: *social influence*, which shows the strategy's influence in terms of social contracts and other stakeholders, *impact on the environment*, consisting of the entire array of actions which mark the environment, in one way or another, *organizational culture*, which is described previously in this article and *finances*, represented by the actual and future financial result.

It is imperative for the new strategy to be chosen and formulated in an efficient way, especially by understanding very well the pros and cons of every strategic alternative. This is extremely important due to the fact that, as shown previously, the new strategy might bring significant changes in the organization. These changes need to be embraced by all the members of the organization in order to meet the strategic goals. Following this, the organizational culture needs to support the new strategy, and this support can be achieved by transforming the strategic process in a highly transparent one, offering detailed explications and ensuring the participation of all personnel (Karnani, 2008, p. 515).

Managers are responsible with choosing the best strategy and they must identify and explore all the consequences of the new strategy, externally and internally, in order to ensure its success (Finlay, 2000, p. 371). On the other hand, companies are forced to take into consideration certain elements, which actively determine the nature of the strategy, elements like the *structural conditions* in which the company conducts its business, its own *capabilities and core competencies* and, also, its *past experience* (Kim & Mauborgne, 2009, p. 74). Considering all of above, the new strategy consists of the company's decision related to (Finlay, 2000, p. 341) *its offers, strategic positioning, necessary resources, ways to access the resources and financing sources*.

Strategy formulation is not reserved only for top level managers. Mid-level and lower-level managers must be involved in the strategy making process, especially due to the fact that in large companies there are four levels of strategies: corporate, divisional, functional and operational. In case of small companies, there are only three levels of strategy: company, functional and operational (David, 2009, p. 180).

At a corporate level, strategies can be used in order to diversify the company, and its offer, whether this diversification is related to the main business and managers are seeking economies of scale, or unrelated, if the managers wish to go beyond its main business activity. In some cases, however, certain external and/or internal factors can cause negative effects on the company, forcing it to enter into a defensive mode. In this situation retrenchment can be used to minimize loses, and eliminate

all the redundant activities, in order to fortify the core competencies and strengthen the company. Unfortunately, this strategy will not offer a guarantee that the company will be able to comeback, and sometimes managers are faced with the necessity of selling divisions of the company, a strategy called divestiture, in order to raise money for future investments, or to sell all the company's tangible assets, a strategy called liquidation. However, companies can increase their performance by creating strategic alliances with other companies, in order to combine the efforts and to create innovative products and services, and also to gain competitive advantages.

At the business unit level, the best known and most widely used strategies are *differentiation*, *overall cost leadership* and *focus* (Porter, 1998, p. 35). These are also called Porter's generic strategies and are intended to be a source of competitive advantages. Differentiation consists of producing goods and/or offering services which are different, even unique, in comparison with the same products on the market, with the intent of building an individual image in the consumers' mind. Overall cost leadership emphasizes the importance of producing standardized goods, in relatively high volumes, in order to keep to a very low level the costs per unit. Companies implementing a focus strategy produce good or offer services to a very narrow group of customers. The aim of the strategy is to best satisfy the needs of these customers, by offering goods which are unique and offer high value for the customer and a high price, or to offer products and/or services to that small group of customers at the lowest price on the market.

We must emphasize the fact that no matter what strategy is chosen, it will generate changes, which will, in term, lead to an opposition of the employees, in the way of implementing this strategy.

#### **4. Empirical research**

Our research is focused on showing and understanding the relationships between a dynamic organizational culture, focused on supporting the strategic efforts, and the existence of a strategy in the construction companies in Romania. Although, from a theoretical perspective, as we have shown in the first two parts of this article, culture is a crucial determinant of the strategic process, I set out to analyze this relationship from an empirical point of view.

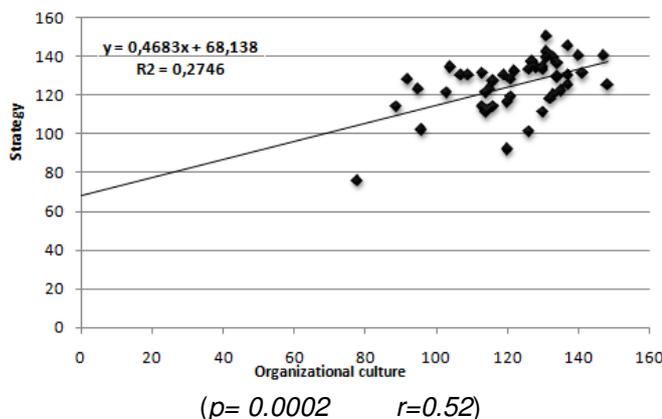
The research presented in this paper is part of a much wider research, focused on the Romanian construction industry, and it shows the correlations between organizational culture and strategy, based on the result obtained from a number of eight companies from the construction industry.

As a tool for research we used a number of two questionnaires, one focused on the organizational culture and the other one focused on the strategic efforts undertaken by the company. The organizational culture questionnaire is aimed in identifying the cultural particularities present inside the company, more specifically the degree in which the culture supports a strategy orientated view. From a strategy perspective, we sought out to evaluate the strategic efforts undertaken by the companies in their quest for competitive advantages.

We choose the questionnaire as a research tool first of all because of the high volume of information which can be obtained, and also because it is standardized, enabling researches to get relevant statistical data.

The eight companies involved in our study provided a total number of 23 valid questionnaires, which were statistically analyzed. The normality test's values which

were obtained showed that the data collected is very well modelled and has a normal distribution. Furthermore, the value of the Pearson's linear correlation coefficient ( $r$ ) which has to be above 0.29 and that of the significance of correlation coefficient ( $p$ ) which has to be below 0.05, revealed a powerful connexion between the existence of a dynamic organizational culture and a strategic process intended to gain competitive advantages.



**Figure 1:** The relationship and correlation between organizational culture and strategy

Due to the fact that this is only a preliminary research, which will be extended to a much numerous statistical population, the results of this research have certain limitations. First of all, only a number of eight companies have been analyzed so far, and second, the majority of these companies are based in the Northern part of Romania, leaving the other regions unanalyzed. But, looking beyond these limitations we can conclude that companies which have a dynamic and strategy supporting organizational culture are much likely to have a competitive strategy formulated and implemented in order to gain sustainable competitive advantages. In other words, an organizational culture in which the employees have a proactive attitude focused on responsibly and efficiently meeting the company's goals, in which managers offer their full support in solving the problems and where everyone is focused on constant professional developments and overcoming their own limits, is more likely to lead to a strategy focused view inside the company, in comparison to the companies in which all of the elements above are not present. Also, a culture, which is dynamic and adaptable, will allow companies to better overcome the problems which may occur both in the internal business processes and in the external environment.

## 5. Conclusion

Companies "fighting" in today's extremely competitive business environment are constantly seeking new ways to ensure an increase in performance and development, especially by gaining sustainable competitive advantages as a result of implementing new strategies. Having the perfect strategy will not guarantee success; companies need to be able to implement the strategy in an efficient manner. This means not only to have the necessary resources required to implement

the strategy, but also to ensure that the organizational climate is favourable towards the new strategy.

As we have stressed out previously in this paper changes will be generated by the new strategy, changes which will alter the way in which things are done inside the company. This may cause employees to oppose the new strategy, as they try to maintain things unchanged in their working environment. It is very important, in ensuring the success of the strategic process, for managers to adopt a high level of transparency and to communicate very efficiently the benefits of the new strategy, in order to show that it will influence, in a positive manner, the organisation and its members. Also, it is important that managers create a dynamic organizational culture. As we have shown in the research, presented in this article, a dynamic culture focused on supporting strategic initiatives will actively influence members to take initiatives in formulating and implementing strategies with the intent of gaining sustainable competitive advantages.

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