

## THE ROLE OF ORGANIZATIONAL AND ECONOMIC CULTURE IN IMPROVING ENTERPRISE PERFORMANCE



**Anhelina Spitsyna**

*PhD, Assoc. Prof, Dept.  
of Economics National Transport  
University, Kyiv, Ukraine*

**Abstract.** The article deals with the role of organizational and economic culture factors in improving enterprise performance. The author analyzes their influence on the production personnel and managers' performance as well as on the formation of the internal environment of the enterprise.

**Key words:** *organizational and economic culture, organization values, personnel*

### Introduction.

Organizational and economic culture is a prerequisite of effective enterprise performance. However, sometimes the management of Ukrainian enterprises does not pay enough attention to different aspects of organizational and economic culture, neglect the knowledge and experience of previous cultures and does not develop new traditions based on European experience.

Economic values are generally shared ideas about the goals of economic activities. They function in the form of an ideal, the basic principles of thinking and are ideal criteria for assessing economic events, phenomena and processes.

Economic values have advantages over such concepts as wealth, money and income-generating means, and the relatively more abstract categories such as capitalism, socialism, individualism, economic liberty, equality, etc. Any society and any social group have their own hierarchy of values. For some population groups, wealth is the highest value, for others it is a 'pure conscience.' In some societies, private property is regarded as a condition for the realization of economic and social freedom, and in others as a social evil that generates social inequality and conflicts.

Unfortunately, to date there are no definitions and interpretations of organizational and economic culture in the above specified context. Organizational and economic culture, as a term, covers most of the phenomena not only of the material and non-material life of the organization including the material values and moral norms, the adopted code of conduct, traditions, rituals, dress code as well as the established standards of quality of products. Different manifestations of enterprise organizational culture and economic mechanisms are observed as soon as an individual step across the threshold of the enterprise. Organizational and economic culture improves the workers' adaptation to the requirements of economic reform and is reflected in a certain philosophy of the enterprise management, above all, top management, which is realized in a specific enterprise strategy. Thus, organizational and economic culture has a critical impact on the enterprise functioning.

### Analysis of recent research and publications.

The nature and role of organizational culture as an economic category have been explored by a number of Ukrainian scientists, among whom are B. M. Andrushkiv, A. O. Drobilenko, P. V. Livitska, V. S. Loznitsa, J. I.

Palekh and I. G. Chimich [1-3]. It's noteworthy that much more extensively organizational culture has been studied by foreign scholars, in particular, by E. A. Chernykh, R. Kigan, D. Meyerson and others [1-10]. However, the impact of organizational and economic culture on the improvement of

enterprise performance has been left out reserchers' attention.

### Objectives.

The economic reform, which has been taking place in Ukraine, has greatly increased the role of organizational and economic culture in the enterprise effective functioning and has made it a modern management tool. This necessitates the search of new mechanisms for the development of organizational and economic culture as an enterprise performance factor. Hence, the objective of our study is to determine the role of organizational and economic culture in the enterprise performance improvement.

### Discussion.

Economic ideals can be defined as the general concepts of perfection in the sphere of economic life that are produced by and present in economic consciousness. Therefore, they are not fully achievable, although they represent a dream and a model which people seek. For example, the modern mechanisms of a market economy in the Western world have been developed by approaching the ideal. Today they are adopted as legal and economic norms that regulate the economic process agents' behaviors.

Ideals reflect the practical economic experience of a particular society and undergo socio-historical specification. Although the ideas of social equality, economic freedom and justice are established values, the different social conditions, "materialized form" and particular understanding of equality, freedom and justice have changed. It is necessary to distinguish between the real values of society and the ideals, which are formulated as ideological constructs.

Economic norms are common patterns that regulate economic behavior. They are a system of behaviors expected in the economic sphere.

Economic norms exist in the economic sphere and serve certain economic relationships. Economic norms function at the formal legal superstructure level as state laws and regulations and as official legal documents (laws, instructions, orders) that regulate the economic relations in the country. In order for these norms to be not purely declarative, they should become everyday socio-economic practices, i.e. they should function successfully at the level of the

economic process agents' behaviors. Therefore, it is important that the content of the state norms should be realistic and adequate to the conditions of their implementation, meet citizens' expectations and agree with their moral consciousness, because economic norms that can not be followed undermine the very idea of the mandatory norm implementation.

Changes in the economic and other social spheres change the conditions of people's joint activities. Therefore, some economic norms cease to meet the needs of economic actors over time and become dysfunctional and inappropriate. Moreover, obsolete norms slow down the economic system development. Therefore, people will strive to change them in order to bring them into line with new living conditions.

Enterprise organizational and economic culture should ensure enterprise's high profitability by maximizing the efficiency of management and improving the enterprise performance as a whole [11] by:

- improvement of human resources management;
- formation of workers' attitudes towards the enterprise as a modern European industrial production (their second home);
- development of workers' ability to rely in their work and personal life on the established behavior norms and to use conflict-free issue solving tactics;
- use of new organizational and economic culture development mechanisms.

Organizational and economic culture is a competitive advantage of the enterprise, since it is considered to be a generally accepted, consistent and integrated system of values, approaches and definitions.

As J. Eldridge and A. Crombie state, organizational culture refers to the unique configuration of norms, values, beliefs, ways of behaving and so on, that characterize the manner in which groups and individuals combine to get things done [6]. This definition of organizational culture is complemented by W. Ouchi, who believes that organizational culture comprises the symbols, ceremonies and myths, which inform the organization members about the established values and beliefs [8].

According to V. Katkov, organizational culture is a system of formal and informal rules and norms, customs and traditions, individual and group interests and behaviors

in a given organization, which may differ in behavior styles, work satisfaction measures, levels of cooperation and the degrees of employees' identification with the organization and its goals [9].

Although the proposed definitions of organizational culture cannot be disputed, one should take into account the fact that enterprise organizational culture is greatly influenced by the economic factors associated with the enterprise workers, top managers and the environment.

All this calls for the introduction of a new term. We suggest to understand enterprise organizational and economic culture as a system of social and economic factors that influence the enterprise development. Since organizational culture affects all the enterprise personnel from the institutional to the technical level of management, it is necessary to take into consideration its role in every worker's work and life [10]:

- for the enterprise owner, it is a way of self-realization;
- for managers, it is an incentive for self-organization and a standard of the established order;
- for workers, it is working conditions.

The organization's culture reflects the values and norms of behavior that have been formed by the history of the organization's development. It is based on the national culture of the country and/or region where the enterprise is located. However, it should be noted that the content of organizational culture is strongly influenced by the values, principles, ideas and attitudes of the organization creators. [4].

Economic habits and routines determine the choice of the most appropriate and fairly common means of group economic activity. The importance of habits in the formation of economic behavior has been stressed by such eco-sociologists as T. Veblen, F. Knight, J. Kato and others. Emergence of habits and people's following the general rules of behavior are both the result of a relatively passive and often unconscious imitation of others and the result of individuals' conscious free choice.

Social habits and routine behaviors can not be overestimated. For example, all economic activities are carried out in accordance with the traditional law, which enables economic agents to judge the viability of contracts and the probable consequences of actions.

Traditional law is understood through daily monitoring of its functioning, rather than by a detailed analysis of different legislative acts. Business itself is limited to informal customs and rules, which are recognized by everyone who does business and are regarded as an "entry ticket" to the business community.

The lives and activities of business circles, to a great extent, depend on a network of contacts, which are often controlled by rules and/or routine formal and informal agreements. It is common knowledge that many (if not all) labor markets are based on strict principles of conduct and contracting, which are largely shaped by social traditions and culture.

Economic culture plays an important role in the economic system functioning because it shapes the social base and a specific type of economy. It determines who and how will influence the image and behaviors of various socio-economic actors. There are also some social functions that critically depend on economic culture. In our opinion, these are: formation of social economic consciousness and certain types of economic thinking and behavior; reflection and evaluation of various aspects of economic activity, identification of the most significant problems and goals and the development of appropriate economic programs; creation and accumulation of economic values and norms that regulate the entire system of economic relations; development of economic laws and models that are the basis of people's economic consciousness and behaviors; accumulation of all social experience; values-based social economic integration; consolidation of economic ties and forms of communication; personal socialization and development through various economic activities.

There are enterprises in Ukraine that originated in the Soviet period and were shaped by the then ideas about effective management and organizational culture. However, over time these enterprises' organizational and economic culture has changed considerably which has brought about fundamental changes in the enterprise management structure and customer communications [1].

Economic culture manifests itself in people's economic relationships and reflects the most typical and repetitive elements of these relationships that facilitate the reproduction of their institutional and personal forms. Culture

takes in and promotes certain rules- and norms-regulated economic interactions and methods of formation of individual and group consciousness and behaviors.

Another important aspect of organizational and economic culture is top management's attitudes towards it, which can be manifested in two ways: if culture does not contradict the objectives of the management, managers do not feel or notice it and are quite comfortable. However, if the principles of the organizational culture do not contribute to the development of the enterprise and/or the workers' goals contradict the goals of the management, such culture becomes a serious obstacle to the development and can cause the collapse of the enterprise.

Thus, enterprise management view organizational culture as a regulator of workers' behavior, which at best promotes the organization's prosperity or at worst hinders and limits its development. The organization's culture, being the strongest work motivator/demotivator, encourages managers to look for the ways of enhancing its motivating capacity and/or weakening its demotivating effects.

Socio-economic changes and the development of a socially oriented economy in Ukraine necessitate the formation of youth market economic culture, which would improve young people's economic activities and allow assessing these activities in terms of social and moral values rather than economic expediency [7].

The transition of Ukraine to market relations contributes to the freedom of people, opens up new possibilities for the realization of their social, economic and spiritual needs as well as creates a basis for the growth of national wealth. This largely depends on the education system, because human culture is, to a great extent, a product of education and training.

Analysis of organizational and economic culture's properties, functions, elements, strengths and weaknesses allows enterprise managers to avoid making different mistakes, extra costs and worries. It is very important to know that any phenomenon in the organization is closely linked to its culture, and any smallest change in the organization will inevitably bring about positive or negative changes in the organization's culture.

Enterprise workers who have been employed for a long time, usually do not notice the

manifestations of culture and their co-workers' behaviors seem to them quite ordinary. Veteran workers can become aware of their enterprise organizational culture if/when they compare it with other enterprises as a consumer or if/when new workers come to work [4].

Organizational culture directs enterprise workers' activities and serves as a standard, because work objectives are closely linked with the organization's values. Organizational culture also includes the permissible ways to achieve various goals, both personal and organizational. The relative stability of organizational culture characteristics maintains workers' sense of stability, which meets their need for safety as a basic human need. Too fast or dramatic changes in organizational culture, especially large-scale ones or those that relate to the enterprise structure, may undermine the workers' sense of stability and cause anxiety for the professional future. If large changes take place in the external environment, organizational culture orientates workers and serves as a kind of survival technology as well as contributes to maintaining the organization's position on the market [4].

In addition, organizational culture forms workers' positive attitudes towards work, because achieving the goals of the enterprise contributes to the achievement of workers' own goals, facilitates satisfaction of their needs and is consistent with the structure of each worker's personality. Elements of organizational culture and the values and norms acquired by workers are internal motivating forces that encourage workers to be professionally efficient [4].

The leading role in the enterprise organizational culture is played by the external environment, which to some extent stimulates the development of information technology, although, according to some studies, it is not seen as quite active. The emergence of new market segments forces enterprises to shift the emphasis in their activities and requires the use of new management, human resource and production methods, including personnel training, refresher training and retraining and recruitment of workers of new specialties.

Obviously, organizational culture is closely connected with customers, suppliers and partners. Information about the goals and principles of the enterprise allow organizational culture to be a stable image of the organization. This information can be

purposefully formed by means of advertising, public relations and is represented in the form of external, material aspects of the organization's life. These include design, clothing, logo, brand name and trade mark.

However, the external image of the enterprise must be consistent with its internal image. The internal image of the organization is a manifestation of organizational culture. The purposeful formation of the internal image of the organization is impossible without changes in or the development of organizational culture.

There are several functions that reflect the role played by organizational and economic culture.

The values of organizational culture are those shared by the majority of workers. Shared values bring together workers or team members. Compliance with the organization's norms, customs, rituals and traditions as well as the knowledge of a specific language, the history and features of the organization makes workers feel affiliated with their enterprise, develops their commitment to the enterprise and integrates them into the enterprise community.

Through the means of broadcasting used in a given culture, a new worker receives an idea about the organization's goals and values and means for their achievement as well as about the rules, norms, behaviors, traditions and career development opportunities. In this way

organizational culture promotes new workers' adaptation to new work conditions and environment.

Orientation to the enterprise mission-stated values, goals and principles creates an algorithm, a technology of achieving the goals and sets a benchmark in the changing environment, thus instilling in everyone associated with the enterprise the feeling of stability and reliability [1].

Organizational and economic culture, which plays a significantly role in enterprise performance, is formed by a number of factors, or (sub) cultures.

The working conditions culture describes the division of responsibilities in the organization. The interpersonal relations culture characterizes relations between co-workers, their cohesion and proneness to conflict. The workers culture stems from their spiritual culture, moral attitudes and beliefs, which form their worldviews, skills in using the acquired knowledge and the relationships with other people. The production organization culture focuses on specific projects implementation using the necessary resources and people in order to produce a synergistic effect. The management culture is based on the central source of power, a key figure that directs all processes in the organization. This culture is 'responsible' for management activities and management functions.

## Conclusion.

Economic culture is a multidimensional phenomenon that consists of both rational and irrational components and contains, as its basic elements, economic values, norms, stereotypes, ideas, concepts, beliefs and traditions popular in a given society, as well as people's attitudes and orientations towards the existing economic system, certain important 'rules of the game' and the principles of the relationship between individuals and economic institutions.

Economic Culture:

- Selects (eliminates, preserves, accumulates) the values and norms necessary for the survival and development of the economy;
- Collects benchmarks for the appropriate economic behaviors and economic activities (e.g., preserves craftsmen's traditions, traditions of co-workers' mutual economic assistance, relations with the top management, attitudes to various instructions, orders, regulations, etc.);
- Passes down from the past into the present the values and norms that are the basis of labor, consumption, distribution and other economic acts and relations;
- Updates the values and norms that direct the development of the economy (it is the source of new normative ideas and behaviors).

Thus, the organizational and economic culture development mechanisms are constantly changing and improved under the influence of different environmental factors. Organizational culture of the enterprise allows finding out the drawbacks in the enterprise's work and identifying their causes followed by working out the ways of their eliminating in order to improve the enterprise's performance for its survival in a competitive environment.

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