Introduction

The relationship between organizational culture and strategy has, very soon after the establishing of organizational culture concept, become interesting to the academic researchers, but also to the practicing managers. It was immediately clear that there is a specific causal relationship between organizational culture and company’s strategy, although it was not clear which of those two was “older” in this relationship, i.e. which one is the cause and which one is the effect. Recent empiric research proved that there is a relationship of interdependence and influence between the company strategy and its organizational culture [12]. Organizational culture significantly influences the process of strategy formulation and selection, as well as its implementation. On the other hand, implementation of the selected strategy leads to the strengthening or changing of organizational culture through the process of its institutionalization.

Key words: strategy, strategic management, organizational culture

Abstract

The paper analyzes the relationship of strategy and organizational culture as two fundamental concepts in management. The results of recent empiric research are first presented, which prove that there is a relationship of interdependence and influence between strategy and organizational culture. Then, the nature and mechanism of the influence of culture on strategy formulation and implementation are analyzed, as well as the influence of strategy on organizational culture. It is shown that organizational culture influences the strategy formulation by determining the gathering of information, perception and interpretation. Also, organizational culture can, through the process of legitimization, facilitate or disable strategy implementation. On the other hand, implementation of the selected strategy leads to the strengthening or changing of organizational culture through the process of its institutionalization.

Key words: strategy, strategic management, organizational culture

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ORGANIZATIONAL CULTURE
AND STRATEGY

Organizaciona kultura
i strategija

Sažetak

U radu se analizira odnos strategije i organizacione kulture kao dva fundamentalna koncepta u upravljanju preduzećem. Prvo se prezentiraju rezultati novijih empirijskih istraživanja koji dokazuju da između organizacione kulture i strategije postoje odnosi međusobne zavisnosti i uticaja. Zatim se analizira priroda i mehanizam uticaja kulture na formulisanje i implementaciju strategije kao i uticaj implementacije strategije na organizacionu kulturu. Pokazano je da organizaciona kultura utiče na formulisane strategije tako što determiniše prikupljanje informacija, percepciju i interpretaciju okruženja. Takođe, kultura može, kroz proces legitimizacije, da olakša ili da onemogući implementaciju strategije. Sa druge strane, primena izabrane strategije utiče na jačanje ili promenu organizacione kulture kroz proces njene institucionalizacije.

Ključne reči: strategija, strategijski menadžment, organizaciona kultura

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of the mechanism of organizational culture’s influence on strategy and vice versa, the influence of strategy on organizational culture. Finally, both implications and recommendations for management will be presented.

Understanding of strategy and organizational culture

Strategy is the most important planned decision whose influence on business operations of an enterprise is crucial. It is in the heart of the strategic management concept, i.e. the concept of company management by means of strategy. Strategy represents a basic way of achieving the goals of an enterprise [7]. It shows how enterprise harmonizes its abilities and resources with the requirements of ever-changing environment in which it operates. Through its strategy, company strives to use all the options and avoid all the dangers in its environment, but also to use all the advantages and minimize the weaknesses with respect to competitions. Strategy is today observed dynamically, as a continual process. Hence, it is regarded that strategy is “formed, rather than formulated” [7]. The following are usually quoted as basic components of strategy: 1. business area in which the company will perform its business activities; 2. the way in which competitive advantage in the chosen business areas is achieved; 3. allocation of resources on the chosen courses of action. In other words, through strategy, as a planned decision, a company first chooses the business area in which it will perform its business activities, and it usually does so within the frame of the product/market matrix. Then, a specific way in which competitive advantage over the competitors will be achieved in the chosen business areas is determined by the strategy. While determining a competitive strategy, an enterprise must make two choices. The first choice refers to the width of the competitive scope: to cover all market segments within the chosen business area or to focus on just one market segment. The second choice refers to the way in which an enterprise achieves the advantage over its competitors: by a leading position with respect to costs or by differentiation with respect to the competition [22]. Finally, resources (material, financial, human) are apportioned through implementation of strategy, so they are allocated to individual activities with the purpose of acquiring competitive advantage in the chosen business areas.

Strategic management process is actually a process of formulation and implementation of strategy. It consists of three basic phases: strategic analysis, strategy selection and strategy implementation [7]. Strategic analysis includes: analysis of mission and goals; analysis of external factors (environment), analysis of internal factors (enterprise’s abilities and resources). Selection of strategy includes: generating of strategic options, evaluation and choosing the best strategic option. Strategic options represent alternative responses of a company to the situation in the environment, which are harmonized with its abilities and resources. In the last phase of strategic management, the implementation of strategy is conduced. In order for the selected strategy to be realized, it is necessary to operationalize it through a plan of action and allocate the resources to the chosen course of actions. Then, it is necessary to adjust the organization to the requirements of the new strategy. Finally, since application of a new strategy usually implicates making certain changes in an organization, the strategic change management is a part and prerequisite for application of the strategy.

Organizational culture may be defined as a system of assumptions, values, norms and attitudes manifested through symbols, which the members of an organization have developed and adopted through mutual experience and which help them to determine the meaning of the world surrounding them and how to behave in it [11]. From the definition, it can be concluded that organizational culture consists of collective cognitive structures, such as assumptions, values, norms and attitudes, but also of symbols which materialize and manifest its cognitive content. Also, it consequently follows that organizational culture is a result of social interaction of the members of organization which takes place during solving of the problem of external adaptation of an enterprise to the environment and internal integration of the collective [17]. The successful solutions to these problems are generalized, systematized, pushed into the subconsciousness of the members of organization, and thus converted into collective cognitive structures shared by all or most of the employees.
and managers. Then, these collective cognitive structures become a guide to the employees while interpreting the reality and the world surrounding them, as well as a guide for their behavior [1] [13]. Culture helps the employees and managers determine the meaning of the concepts, things and events both within and outside of the organization. In conformity with the interpretation of the reality, they also behave in it: make decisions, take actions and enter interactions with others. From this fact, a strong influence which organizational culture has on the business operations of an enterprise also emerges. Through determining the meanings, which managers and employees attach to the events and occurrences both within and outside of the enterprise, organizational culture shapes each of their decisions, actions or interactions [19]. Therefore, everything that happens in an enterprise, starting with strategic, through operational decisions, to interpersonal relationships is, at least partly, determined by organizational culture. Researches show that strategy, wages system, organizational structure, system of control, knowledge management, leadership style and many other elements of management are under the influence of organizational culture [4]. For this reason, organizational culture is a significant factor of the enterprise's performances; it may be a "magic wand of success", but also a "silent killer" [21].

Collective cognitive structures which are at the heart of organizational culture include assumptions, values, behavior norms and attitudes [4]. Assumptions are descriptive in character, because they explain the nature of the world and relationships in it to the members of organization. Values are prescriptive in character, because they show to the members of organization how they should act and to what should be strived for. Norms are unwritten, informal rules of behavior, which are, as a type of social expectations, imposed on all the members of organization in everyday working activities. Attitudes are beliefs of the members of organization about certain occurrences or things that predispose their behavior and their relations to these occurrences and things. Besides the cognitive component, organizational culture also contains a symbolic component. Namely, the symbols that manifest collective assumptions, values, norms and attitudes are also part of the culture of an organization. Symbols include everything that can be seen, heard or felt in an organization and they can by their nature be: behavioral, semantic and material [9].

**Results of the recent researches of the relationship between strategy and organizational culture**

Recent empiric research of the relationship between strategy and culture can be, conditionally, divided into two groups. One group of research deals with relations of general strategies and cultural assumptions and values. The other group of research deals with relations of culture and individual functional strategies of an enterprise or strategies within specific business areas, such as human resources management, production or marketing. We will present only representative researches in both groups and their results.

The most comprehensive empiric research of the relationships of general strategy of an enterprise and organizational culture was, recently, conducted in Australia [3]. The authors start from the assumption that organizational culture and strategy are mutually conditioned, and even that they are the two sides of the same coin. For this reason, the authors do not assume existence of dependent and independent variable in the interrelation of organizational culture and strategy, i.e. that one is the cause and the other is the effect. What is of the authors' interest is to operationalize this mutually conditioned relationship by showing that a specific type of strategy and a specific type of organizational culture "get along", i.e. that there is a high correlation between them. This would then mean that, in order to implement a specific strategy, it is necessary to build a specific organizational culture, or that a specific organizational culture leads to selection and implementation of a specific strategy.

The authors operationalized and measured organizational culture by means of modified Organizational Culture Profile (OCP) instrument, i.e. by means of classification of cultural norms, which was conducted, by using the original OCP questionnaire, by O'Reilly and his associates [16]. In the modified version used by the authors, there are six cultural norms: result orientation, detail orientation,
support for the people, innovativeness, team orientation and stability. Cultures actually differ by the relative strength of each of these norms. The authors also measured average, or typical, organizational culture profile of Australian firms, finding that organizational culture is above all characterized by result orientation, but this is beyond our interest for the time being. Strategy is operationalized and measured by the use of the well-known Miles and Snow classification [14] which recognizes four types of strategies. Prospectors are companies which highly value innovations, seek and use opportunities in the market, do not flinch from taking risks, intensively invest in research and development, as well as in organizational learning and knowledge management, and often innovate their products. Defenders are companies which highly value safety and stability, refrain from taking risks, and do not seek opportunities in the market. They do not innovate their products often, but they do achieve high quality and/or low price of their products. This is the reason that they invest little in development and innovations. Analyzers are somewhere between prospectors and defenders. Reactors are companies which actually do not have a consistent strategy, but react to events in the environment as they occur, and usually make extorted moves.

By setting up hypotheses about the relationship between strategy and culture, the authors have limited themselves to just four out of six cultural norms. Thus, they first set a hypothesis, which is then proven, that prospectors have a culture which highly values orientation to results and innovativeness, in a certainly greater extent than companies defenders. By the strength of these cultural norms, analyzers are somewhere between prospectors and defenders. This hypothesis is logical, since prospectors are proactive, oriented to innovations, changes, risk taking and learning. In order to be able to implement prospector strategy, companies must build a culture in which precisely innovativeness and result orientation are highly valued. Or, in other words, if they have a culture in which innovativeness and result orientation are highly valued, then implementation of prospector strategy is the right choice for such companies.

On the other hand, defenders highly value, certainly higher than prospectors and analyzers, the values of stability and detail orientation. This hypothesis is also proven empirically. Defenders must create stability, since their strategy is based on high efficiency and low costs. Also, orientation to details which includes norms, such as precision, obeying the rules and attention, is highly suitable to the requirements of high quality and low costs. On the other hand, detail orientation and stability deprive the company of flexibility and innovativeness. Hence, a company that wishes to implement a defender strategy must build a culture in which stability and orientation to details are highly valued. Or, in other words, if a company has a culture dominated by stability and detail orientation, then a defender strategy is the right choice for such a company.

The third hypothesis refers to companies which implement a reactor strategy. Since this is not actually a consistent strategy, a logical hypothesis is that these companies will have a lower score, or weaker all of the cultural norms. This hypothesis was also proven correct.

Another recent empiric research regarding the relationship between company strategy and organizational culture is based on Miles and Snow classification [10]. But, this research uses organizational culture classification known as the Competing Values Framework [5]. In this classification, the following types of organizational culture are recognized: clan culture, hierarchy culture, market culture and adhocracy culture. An important characteristic of this research is that it included different economy sectors with the intention to explore whether the relationship between strategy and culture is equally important in all the sectors. The research started from the assumption that strategy and culture are mutually conditioned, and that every enterprise which changes the strategy must adapt its culture to the selected strategy, otherwise it will face failure in strategy implementation. Culture impacts the behavior of employees and managers, and this is why it must be such to induce the behavior which will lead to the strategy realization. Since every strategy in Miles and Snow classification implicates different behavior of employees and managers, different criteria of success, different styles, etc., it means that different cultures will be needed for the successful implementation of different strategies. Hence, specific strategies will match specific cultures.
The mutual conditioning of organizational culture and strategy also applies in the case of specific, functional strategies in specific business areas of enterprise. Thus, one research focuses on the relationship between company strategy and human resources management (HRM) strategy [6]. This research started with the assumption that mutual compatibility of culture and strategy leads to better performances of the enterprise. The authors set the hypothesis that efficiency of HR strategy depends on its compatibility with organizational culture, but also with the business strategy. In this research, culture does not have a direct, but a modifying influence on human resources management (HRM) strategy. Namely, organizational culture does not directly influence the selection of HR strategy, but the effects of this strategy on company performance and employee turnover rate.

The authors used HR strategy classification which identifies two basic strategies, or systems, of human resources management (HRM): inducement and involvement. These two strategies, or systems, of HRM are based on two different philosophies, or assumptions, on human resources, hence it is no wonder that they are compatible with different types of organizational cultures. Human resources management (HRM) based on inducement includes focus on lowering the costs. This strategy therefore includes narrowly defined and specialized jobs and a very clear connection between individual performances and rewards. Payment based on performances is a mandatory part of HRM system. Performance appraisal is highly developed, systematic, formalized and detailed. Generally speaking, inducement strategy requires very strict control and monitoring of the employees. From the description of this strategy it can be seen that it is based on the assumption that employees are above all motivated by extrinsic factors, such as salary, and that human resources in an enterprise can be best used by inducement based on transactional relationship between an enterprise and its employees, and on clear and fair performance-based salary. Involvement strategy includes a human resources management (HRM) system which emphasizes innovations and quality. This strategy therefore implies a high use of teams, high autonomy of the employees, less clear division of labor, higher emphasis on learning and knowledge management, and higher diversification of work. The assumption here is that people are motivated above all by intrinsic factors, such as the work itself, and that human resources can best be used if they are included in organizing, and not if they are well paid. Involvement strategy is suitable for enterprises with high rate of highly skilled employees who perform non-repetitive tasks.

With respect to organizational culture, authors use Wallach classification [20], which recognizes three types of culture: bureaucratic, supportive and innovative, or competitive. Bureaucratic culture is based on the assumptions of rationality and formalization. Therefore, it includes the focus on clear regulations of work and relations in an enterprise, which is accomplished by means such as hierarchy, structure or formal procedures. Work is clearly and systematically organized. This culture is suitable for repetitive tasks and there are no prospects that it would lead to dedication of the employees. Supportive culture is the one which is based on the assumption that an enterprise is a family, and that the best results from people are achieved when harmonious relationships between them are established. This culture strives to create an ambient of support, harmony, warm and close relationships between people. Supportive culture implies a paternalistic leadership style, but it is likely that it will create a higher degree of employees’ satisfaction and their dedication to the company. Finally, competitive culture is the one which focuses on the value of innovations, results, competition, changes and entrepreneurship. It creates a dynamic, but also a competitive ambient, in which success is highly valued in the sense of innovations and revenue.

In the research, the hypothesis is set and then empirically proven that the effects of human resources management strategy on company performance and employee turnover rate will depend on its compatibility with an adequate type of culture. Hence, the culture does not directly determine the selection of HR strategy, but modifies its effects on financial performance and employee turnover rate. When it comes to the specific relationship between organizational culture and HR strategy, three relations have been proven. First, implementation of inducement strategy in supportive culture leads to better performance and lower employee turnover rate. Second,
implementation of involvement strategy in competitive culture leads to better performance and lower employee turnover rate. Third, bureaucratic culture has no effect on implementation of either inducement strategy or involvement strategy. Therefore, the conclusion is that inducement strategy is compatible with supportive culture, and the recommendation is that this strategy be used only in this type of organizational culture. Also, involvement strategy is compatible with competitive culture, and therefore it should be used only in the context of this culture.

Relationship between strategy and culture has also been proven with respect to market entry strategy [15]. It has been empirically proven that organizational culture influences company strategy regarding market entry, specifically with respect to the selection between innovation strategy and imitation strategy. Innovation strategy means that company always strives to be the first to place a new product or service to the market segment, while imitation strategy means that company imitates innovators and places similar products or services to the market after them, thus lowering the risk. Innovativeness requires certain characteristics and behavior of an enterprise, such as flexibility, openness for change, entrepreneurship, risk acceptance and error tolerance. Imitation as a strategy implies greater reliance on control, stability, efficiency and precision. It is reasonable to expect that organizational culture will influence the selection of company strategy between innovation and imitation. Organizational culture can significantly stimulate, but also limit those behaviors and attitudes that are compatible with innovativeness or imitation.

In the analysis of organizational culture influence on strategy of innovativeness or imitation, Competing Values Framework is used, which recognizes: clan culture, hierarchy culture, market culture and adhocracy culture [5]. The authors set the hypothesis that adhocracy as a model of organizational culture indeed leads towards innovative company behavior, while hierarchy culture leads to imitation as a market entry strategy. Adhocracy is a type of culture in which values of creativeness, innovations, entrepreneurship and risk taking are strongly present. The fundamental goal of a company with such culture is to be first on the market, i.e. to innovate, and the basic criterion of success is precisely the innovativeness and creation of innovative products and services. The leaders are innovators, and they themselves take risks. The people in such organization are connected by the desire for experimentation and trying out new things. Competition between people is valued instead of team work, but employees and managers are consequently allowed autonomy and discretion in decision-making, which leads to their innovative behavior. On the other hand, hierarchy culture is an excellent ambient for implementation of imitation strategy. In this culture, stability, predictability and safety of employment are highly valued. Internal and control orientation in this type of culture form orientation toward rules, in which rationality, procedures, hierarchy, authority and division of labor are emphasized. The most important thing is to achieve efficient, harmonious and smooth functioning of organization. Following of the same rules and procedures keeps the people together. The emphasis is on long-term efficiency, low costs and harmonious functioning. Employees enjoy relative safety of employment and certainty regarding the organization. This is not an ambient in which new ideas and new products would emerge, but it is an ambient in which new products that someone else creates are efficiently imitated and all advantages of safe market entry without the presence of large risk are used. Hierarchy culture enables the efficient use of innovations, and even gaining, with greater efficiency, more benefits out of them than the very creators of these innovations have. The remaining two types of culture, clan culture and market culture, do not have values and norms compatible with any of the marker entry strategies.

Another research has pointed out the relationship between marketing, or product–market, strategy and organizational culture [22]. The basic hypothesis is that compatibility of marketing strategy, or product market strategy, and organizational culture type will have influence on better company performance, because this compatibility will enable more efficient implementation of the selected marketing strategy. Compatibility of marketing strategy and organizational culture will contribute to better adaptation of the company to the environment, which is a key factor of good organizational performance. The research uses organizational cultures’ classification known
as Competing Values Framework which recognizes: clan culture, hierarchy culture, market culture and adhocracy culture [5]. As a basis for marketing strategy classification, three of its dimensions are used: differentiation, cost-based efficiency or leading position in costs, and market scope.

The hypothesis is that marketing strategy influences culture in that the choice of market scope and value propositions signalizes what kind of behavior is expected from the employees and managers, because each choice of market scope and value proposition requires different behavior. Second, selection of marketing strategy influences institutional arrangements (structure and systems) which regulate behavior of the employees and managers, and thus also influences their awareness and organizational culture. On the other hand, the research has shown that organizational culture determines the way in which the employees and managers will perceive stimuli from the environment, and thereby also which decisions they will make regarding the selection of marketing strategy. Also, culture influences the choice of company goals, and thereby also the selection of strategy for realization of these goals.

Hence, the authors set the hypothesis that marketing strategy and organizational culture influence one another, and that they fluctuate in the same direction. Compatibility of marketing strategy and culture leads to greater customer satisfaction. The reason for this is that compatibility of marketing strategy and cultural values and norms enables the employees to identify themselves with the selected strategy, so their behavior develops in the direction of realization of the selected marketing strategy. Then the performances will also be better, and the first performance aspect that the authors analyze is customer satisfaction. Another performance aspect of influence of marketing strategy and culture compatibility is financial aspect, and the authors measure it through cash flow return on assets. Greater compatibility of marketing strategy and organizational culture leads to higher value delivered to consumers, which makes them more satisfied, and thereby the cash inflows are higher.

Relationships between organizational culture and production strategy are explored in the work of Fang and Wang [8]. Production strategy is defined as a long-term work program of production function which is compatible with the overall company strategy. Key elements of company production strategy are four competitive goals which should be achieved by production function: costs, quality, flexibility and reliability. Production strategies differ with respect to which of the stated goals has the priority in the company.

In the paper, the hypothesis is set and proven that organizational culture and organizational learning influence the production strategy. Organizational culture is measured through four dimensions which Hofstede also used for national cultures analysis: power distance, avoidance of uncertainty, individualism–collectivism, and male–female values. The research showed that out of four stated cultural dimensions, two have especially significant influence on production strategy: power distance and individualism.

The nature of relationship between strategy and organizational culture

A survey of empiric research shows that there is a strong mutual influence, or compatibility, between strategy and organizational culture, as well as that this compatibility positively influences financial, market and other company performances. Compatibility of strategy and culture is manifested in that certain types of company strategies are effective and applied only in certain types of organizational culture and vice versa, that certain type of organizational culture is developed only in the companies which apply a certain type of strategy. In other words, certain types of organizational culture imply formulation and implementation of certain strategies, while certain strategies lead to creation of specific types of organizational cultures. However, in order to fully understand the nature of the relationship between strategy and organizational culture, we must explain the mechanism of this mutual influence of strategy and culture. We must understand the way in which organizational culture determines the selection and implementation of strategy, and the way in which strategy implementation influences organizational culture. In the rest of this paper we will provide answers to these questions.
Influence of organizational culture on strategy

Organizational culture strongly influences both the strategy formulation process, as well as strategy implementation process. In strategy formulation phase, culture significantly influences the selection of strategy, while in the phase of its implementation culture may be both stimulating factor, as well as an insurmountable barrier. The influence of culture in both phases emerges from its influence on interpretative schemes or mental maps of top management, as well as middle- and lower-level managers and employees.

In strategy formulation process which, as we have seen, includes activities of strategic analysis, strategic options generation and selection of strategy, organizational culture represents a reference framework in which strategic decision makers operate. Cultural assumptions, values and norms shared by all the people in an enterprise create a framework which encloses the perception, interpretation and conclusions of all the people in the enterprise, including those who conduct strategic analysis, generation and selection of strategic options. Generally accepted assumptions, values and norms significantly shape top management mental schemes. These schemes in turn significantly influence their perception and interpretation of both the external environment and the organization itself, making conclusions regarding possible organizational strategies, as well as selection of the best strategy. Whether the management of an enterprise will even notice the occurrence of new trends in consumers’ taste, whether trade liberalization in some sector will be interpreted as a threat or an opportunity, whether the management faced with decrease of sale will lower the costs or increase marketing efforts, it all in a great extent depends on top management interpretative schemes, and they are strongly influenced by cultural assumptions and values. More specifically, organizational culture influences the strategy formulation in the following ways.

Organizational culture determines the way in which management gathers information and analyzes both the environment and company resources. Which information from the environment will a company gather and what image of the environment will it build in the process of external analysis, it depends on the way in which it gathers information. Through its assumptions, values and norms regarding the environment and the position of the company within it, organizational culture determines sources, types and ways of information gathering. Whether a company prefers qualitative or quantitative information, whether it even has formal procedures for environment scanning, and whether a company is at all systematic and continual in its environment scanning, it all depends on the values and assumptions shared by the employees and company management. The enterprises with a culture in which openness toward environment, extrovert perspective and flexibility prevail have a significantly more developed practice and mechanisms of environment scanning, in comparison to the enterprises with prevalent introvert perspective, inaccessibility and stability. However, not only the analysis of external environment is under the strong influence of organizational culture, but so is the internal environment as well. Procedures of company resources and abilities evaluation are also determined by company values and norms.

Organizational culture causes selective perception of events in an environment. Organizational culture influence on perception during strategic decisions making is achieved through mental or interpretative scheme. Mental or interpretative scheme represents a systematized and generalized knowledge which an individual has gained during his experience with certain occurrences, and which helps him interpret events around him. It is already stated that organizational culture, with its assumptions, values and norms, determines a significant part of mental schemes of the members of organization. Psychologists have determined that people are prone to “oversee” those events, people or occurrences which are not in conformity with their mental schemes, and also to overrate the significance of those which are. Information from the environment which is not compatible with mental schemes is significantly more difficult to perceive and more easily forgotten. Since a significant part of these schemes is determined by assumptions, values and norms of organizational culture, it means that organizational culture also represents a kind of filter through which some information can go through, and some cannot. In this way significant errors may occur while making strategic decisions. Selective perception is the basic cause
of many failed investments, as in the case when, during decision-making regarding entering into some investment project, only those facts that go in favor of the preferential option are taken into account, while other information, regarding possible negative effects, are consciously or unconsciously suppressed.

Organizational culture directs interpretations of events in the environment and organization. It is not enough that decision-makers in an enterprise perceive some occurrences or events. In order to truly have impact on strategy formulation, it is necessary for them to be interpreted in the way which will cause specific effects. Interpretation of perceived events in the environment or, even, of company resources depends on mental schemes of those who perform this interpretation. Since a significant part of mental schemes has actually emerged from organizational culture, it may be said that culture is a very active factor which directs the way in which external and internal factors of strategic selections will be interpreted and understood. The example of IBM is very illustrative here. This world known leader in personal computers was the first world producer of large computers, the so called mainframe computers. When PC first appeared, IBM top management simply did not realize what that occurrence actually meant. IBM was paralyzed by its assumptions that information actually meant memory. The assumption underlying PC was, however, that information meant software. Led by wrong interpretation of the nature of personal computers, IBM was not in the beginning able to react in the right way. The change still occurred, although somewhat later, after IBM management had changed their perspective on business in which their company operated.

Organizational culture determines the selection of strategic option. From the perception of external environment and company resources, as well as from their interpretation, the selections of strategic directions of actions also emerge. Thus, culture indirectly, through perception and interpretation of the environment and the company itself, directs strategic selection. But, assumptions, values and norms prevailing in organizational culture also directly influence the generating of possible strategic options, as well as the selection of the best one among them. Strategic options that top management generates based on strategic analysis can be set only within the framework set by cultural assumptions and values. Top management cannot consider some strategic action if it surpasses the framework defined by cultural assumptions and values. Simply put, such strategic alternatives are “unthinkable” to managers, and therefore impossible. Hence, culture, in the first place, influences strategic selection by narrowing down the list of strategic options and excluding from it the culturally unacceptable ones. Another way in which culture, with its assumptions and values, influences strategy selection is its role in strategic alternatives evaluation and in selection of the best one among them. It is misconception to think that evaluation and selection of strategic option is an “objective” process in which decisions are made based on the clear and quantified criteria known in advance. Motives, interests, battle for power, as well as subconscious assumptions and values of those who make the selection of strategy become prominent in this process. The best strategy is the one marked as such by top management, starting from certain assumptions, values, beliefs, attitudes and norms, and not from numbers and analyses. Besides organizational culture, the selection of strategy is also influenced by subcultures in an enterprise. The differences between functional subcultures in an enterprise are especially important. Differences in assumptions, values and beliefs between commercial, production, financial, and research and development department in an enterprise make the process of strategy formulation significantly more difficult. Functional managers and experts, who participate in the process of business strategy formulation, sometimes start from completely different assumptions, values and beliefs of both the character of trends in the environment, as well as of the company mission, goals and resources. Therefore, their discussion on the procedures of company strategy shaping often resembles a “dialogue of the deaf”. The situation is further complicated by the connection which may be established between different subcultures in an enterprise and different interests, so the entire process of strategy formulation may assume political dimension. Subcultures may easily turn into interest groups, and in such a way that their members will unite in order to impose their views and perspective. On the other hand, interest groups in a company are often
organized around subcultures, since it gives legitimacy to their own interests. In that situation, the members of an interest group represent something that is of pure partial interest of some sector or a group as legitimate difference in views and perspective.

The numerousness of influences that organizational culture has on strategy formulation leads to the conclusion that strategy may be observed as a cultural symbol. It reflects and manifests the basic cultural assumptions, values and norms shared by strategic decisions makers in a company. By analyzing company strategy, values and beliefs shared by managers and employees in an enterprise may be revealed.

Organizational culture influences not only the process of strategy formulation, but also the process of selected strategy implementation. Culture may be an incentive factor, but also an insurmountable barrier to implementation of the selected strategic courses of action. It will depend on the degree of conformity of cultural assumptions, values and norms with the selected strategy. Each selected strategic course of action implies a specific set of operating activities through which it is implemented. If these activities are consistent with cultural assumptions, values and norms, they will be interpreted as legitimate, i.e. useful, justified and needed. In this case, employees and managers who conduct these activities will be motivated to apply them in both shape and manner as the top management pictured it. This is a situation in which organizational culture is an incentive factor of strategy implementation. In this case, culture legitimizes strategy which is, as far as culture is concerned, implemented without problems and difficulties.

However, it might be the case that a strategy incompatible with the existing organizational culture is formulated. In that case, culture becomes a barrier to strategy implementation. Formulation a culturally unacceptable strategy may occur for numerous reasons. One of them is certainly environmental pressure, which forces strategic decisions makers to change their existing views and accept a completely different, culturally unacceptable, course of actions. Incompatibility of strategy and culture also emerges in a situation when new management takes over the enterprise. It is very often the case that new leader and his associates, who are outsiders and unburdened by the existing cultural values, make radical changes in company strategy which go beyond the limits the framework of the existing organizational culture. The new management can then formulate a strategy which confronts the values and beliefs of the majority of the employees and managers. Finally, incompatibility of strategy and culture is often the case in the situation of acquisitions. When one company overtakes another, the acquired company is forced to change its strategy and accept the one imposed by the new owner, even though this new strategy is often incompatible with the culture of the acquired company.

The consequence of incompatibility of strategy and culture is that implementation of strategy includes a set of operating activities which are not in conformity with the existing cultural assumptions, values and behavior norms. The implementation of strategy then implies performing the activities which are not culturally acceptable for all or most of the employees and managers. In this case, activities necessary for strategy implementation are illegitimate in the view of employees and managers, and they are not justified, useful, or needed. In other words, culture delegitimizes strategy. Of course, performing of operating activities with the aim of strategy implementation will be extremely difficult. These activities should be performed by employees and managers who do not understand them and do not accept them, since they find them wrong, unnecessary or useless. Through the pressure performed by top management, who formulated the strategy to begin with, it is possible to enable strategy implementation, but this implementation will be inefficient, slow, or done with a very strong resistance. The result would be failed strategy implementation, its incomplete or delayed implementation, or a certain strategy modification during its implementation in order for it to be adjusted to culture and become culturally acceptable.

In all the cases when culture and strategy are incompatible and represent a barrier to strategy implementation, the risk of non-implementation of strategy is called cultural risk. The question arises how the company should react and thus decrease the cultural risk [18]. In case of incompatibility of business strategy and organizational culture, company has several options.
Ignoring of culture. In most cases, this strategy does not pay off, nor can it be recommended. Ignoring of culture may in short term seem as a simple solution, but in the long run it may cause serious problems in strategy implementation. This strategy might be recommended only with respect to small and young firm, which has not yet firmly established its system of values and beliefs, and in which company management may hope that the selected strategy will gradually shape the necessary cultural profile.

Modify the culture to adapt to strategy. This strategy is often used in situations when new management wishes to impose new strategy to the company they acquired. One of prerequisites of successful strategy realization is also a modification of the culture incompatible with the new strategy. However, this is very risky, expensive, uncertain and long-lasting operation. It can easily be the case that the time needed for the culture to be changed is significantly longer than the time available for strategy implementation. The situation is slightly less difficult when, instead of completely changing the culture, successful strategy implementation requires only smaller adaptations of some behavioral norms.

Modify the strategy to adapt to culture. This is often the way in which tensions between strategy and culture are solved. It is particularly present in the acquisition situations, when the acquired companies change their strategies which are incompatible with organizational culture of the mother company.

Change strategy implementation plan. If strategy is of vital importance for the company, and culture cannot be adapted to strategy, the company can change strategy implementation plan by adapting it to culture. Thus, the company will not give up the strategy, but will modify certain elements, which are not culturally acceptable, of its implementation plan.

Influence of strategy on organizational culture

We have seen that organizational culture influences strategy formulation and implementation, but also that long-lasting implementation of a certain strategy can influence organizational culture, i.e. strengthen or change the existing type of organizational culture of an enterprise. What influence will strategy have on company culture depends on the compatibility of cultural values and norms, on the one hand, and operational activities implied by implementation of a certain strategy, on the other. If the formulated company strategy implies conducting of activities which are consistent with the existing cultural values, then the strategy will positively influence the existing organizational culture, in the way that it will additionally strengthen its values. It does so through the process of institutionalization, since strategy is a formal, institutional decision. Implementation of strategy requires conducting of a specific set of operating activities, which imply that employees and managers perform specific jobs and tasks and also perform them in a specific way. When performing of activities, jobs and tasks in the process of strategy implementation is in conformity with the existing assumptions, values and norms in organizational culture, the employees and managers will have confidence in properness of activities implied by the strategy, as well as in properness of the strategy itself, hence they will be willing to completely implement it. On the other hand, this conformity of cultural values and norms with the selected strategy reassures the employees and managers in the properness of organizational culture. In this way, implementation of strategy, compatible with the existing organizational culture, will strengthen this culture. In this process, culture becomes institutionalized through strategy. Institutionalization of culture represents a process through which cultural assumptions, values and norms in an enterprise are being built in its strategy. Institutionalization of culture is a form of its perpetuation, i.e. its self-renewal.

If newly formulated strategy requires employees and managers to perform jobs and tasks in a way which is not in conformity with values and norms of the existing organizational culture, two situations may develop. One was already described above in this text and it refers to the situation in which organizational culture becomes a barrier to new strategy implementation. However, if the pressure by top management to implement the selected strategy prevails, it may change the existing organizational culture. In this case, strategy deinstitutionalizes the culture and thereby initiates the process of its change. By radical strategic turn, company management forces
employees to behave, during a certain time period, in a way incompatible with the prevailing cultural assumptions, values and norms. Thereby, management leads employees into the state of cognitive dissonance. It is an unpleasant state in which values important to an individual are not in conformity with the behavior he/she is forced to practice. Since people have the need to be consistent and act according to their beliefs, they will strive to exit the state of cognitive dissonance as soon as possible. They may do so in two ways. First, they may strictly stick to their values, which are determined by the existing culture, and therefore return to the previous behavior, which is in conformity with their values. This situation was already described as a situation in which organizational culture blocks the implementation of strategy or leads to modification of strategy and adapting it to culture. However, the members of organization may also exit the state of cognitive dissonance by abandoning their existing values and norms and accepting new ones, which legitimize the new behavior forced on them by the new strategy. Massive dealing with the state of cognitive dissonance of the members of organization in this way will lead to organizational culture change. Therefore, if management persists in new strategy implementation, the employees will have no other choice but to change their values and norms in the way to comply them with the new strategy. The final result would again be harmony between culture and strategy, but with a new culture which legitimizes the new strategy. In this way strategy shapes new organizational culture.

Conclusions and implications to management

The survey of empirical researches, as well as their theoretical elaborations, indicates that strategy and organizational culture are mutually conditioned, and that their mutual conformity and harmony bring advantage to the company. Organizational culture influences strategy in both the process of its formulation, as well as in the process of its implementation. Organizational culture influences strategy formulation by shaping the interpretative schemes and meanings which strategic decisions makers assign to the occurrences within and outside of the company. Culture determines the way in which top management gathers information, the way in which they perceive and interpret the environment and the company resources, but it also influences the way in which they make strategic decisions, i.e. make the strategy selection. Organizational culture influences strategy implementation by legitimizing or delegitimizing the strategy, depending on the consistency between cultural values and the selected strategy. When culture legitimizes strategy, it significantly facilitates strategy implementation, and when culture delegitimizes strategy in the view of employees and managers, it makes the implementation of the selected strategy almost impossible.

Strategy influences organizational culture by institutionalizing or deinstitutionalizing the culture, depending on the conformity with cultural values and norms. If activities through which the selected strategy is operationalized and implemented are in conformity with cultural values and norms, the strategy will institutionalize and strengthen the existing culture. Conversely, long-lasting and consistent implementation of the selected strategy will deinstitutionalize organizational culture, whereby the process of its change begins.

The basic recommendation to management regarding the relationship between strategy and organizational culture is that a way must be found for these two fundamental company management components to be harmonized. This can be achieved in two basic ways. First, in strategy formulation, management of the company must have in mind cultural assumptions, values and norms in order to provide in advance for the new strategy to comply with them. To be able to do this, management must, in the phase of strategic analysis, perform and scan organizational culture profile of the enterprise. Also, management must, in the phase of strategy selection, be ready to adapt the strategy to the existing culture of the company. On the other hand, if management is forced to select a strategy which is inconsistent with the existing culture, they must be ready and able to close the “cultural gap” during the strategy implementation, which is achieved by changing the existing culture. In order to do this, management must have abilities and knowledge of how to change organizational culture in a planned manner.
References


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