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-
- [Crisis Information > Crisis Management](#)
-
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Corporate Culture as a Source of Crisis in Companies

by Roman Zuzak

Introduction

The company crisis could be defined as a loss of equilibrium in one or more of its subsystems which might affect achieving its goal or even threaten its existence. The corporate culture involves certain values, rules of behaviour, within and outside the company, which are shared by the company employees and, from the moral point of view, considered binding for them.

There is a reciprocally causal relationship between the company crisis and corporate culture. If the corporate culture is not strong enough and a company crisis occurs, its value system could break down, it can be challenged or the crisis can unveil real values and relations hidden behind the proclaimed corporate culture.

On the contrary, in certain situations the corporate culture can lead directly to the launching of a crisis causal chain, which means that the original cause of the crisis starts off other unbalances, or it could deepen the unbalances occurring in another company subsystem and speed up the development of the crisis and make it more difficult or even impossible to pull the company out of the crisis.

The main causes of this situation are: insufficient or no identification of the corporate culture, the corporate culture is not formulated in a purposeful and systematic way and no transformation is undergone with the new conditions. The corporate culture is established by people in the company and considering that each person is original and different, each and every corporate culture is unique. At the same time it reflects conservatism of people's thinking and acting. This makes it impossible to react quickly to the changing conditions and make the appropriate alterations in the corporate culture. In the course of systematic development and transformation of the corporate culture significant changes begin to appear no sooner than after two years and a modification of the culture of a larger company takes three to ten years. Thus the corporate culture becomes an important risk factor.

The goal of this contribution is to present the outcome of the analysis followed by the identification of situations in which the corporate culture is a potential direct source of the company crisis or in which it might deepen such a crisis, to introduce the main factors of its negative impact on the company and the formulation of the algorithm for the elimination of its negative effect.

The analysis was based on personal experience from company management and consulting practice completed by and compared mainly with consulting and management experience of domestic and foreign business entities described in literature. The formulation of the elementary process is based on the same sources and it is applicable particularly in the company practice of consulting entities.

Based on the analysis, the following situations were identified involving the corporate culture as a risk factor and a source of the company crisis. With regard to limited space, only brief descriptions of these situations are presented.

Corporate culture does not correlate with major changes in the society

A fundamental conflict has developed between the company surroundings and the reality of the surrounding world on the one hand and the corporate culture on the other hand. From the point of view of the frequency of occurrence it is a very rare case, however, its consequences are rather significant. A typical example is the transition of Czech society from planned to market economy, which, in the field of corporate culture, many companies have not managed to cope with yet. Moreover, the crises developing in the majority of companies were aggravated by conduct of the company management and owners (short-term personal interests, asset-stripping) and by ignoring the necessity of changes in the corporate culture.

Company enlargement

A small business, at the beginning of its existence, has a specific corporate culture. The establishment of a business is often accompanied by the attempt to implement the business plan and entrepreneurial enthusiasm and it reflects the corporate culture of the founders. Together with the company enlargement, the growth of the number of its staff and hiring of new employees not having a personal relationship towards the company and not going through the company's initial stage, the corporate culture and relations among the people in the company are undergoing changes. The failure to understand these changes and to create a new company culture becomes the source of crisis situations.

Existence of subcultures having negative effect on the company

The corporate culture, despite the fact that in some situations it is intentionally developed, is not likely to be monolithic and a number of subcultures, in professional groups or company departments in particular, is active there. Within certain company subcultures major deviations from the developed and desirable corporate culture may occur and

personal interests diametrically opposed to the company goals may be pushed forward. The result is the lack of support of the company strategy and goal implementation and loyalty - on the contrary, it can lead to intentional creation of problems or not dealing with problems, which can lead to crisis states.

Company mergers

A merger of companies represents not just the fusion of the companies, but also of some workplaces with different corporate cultures. The company merger is usually accompanied with the firing of employees and merger of organisational units. This leads to communication problems between the employees, the development of conflicts at workplaces, the formation of cliques and groups of employees from former companies, mutual controversies between them and the unwillingness to co-operate. Generally, the company merger is connected with the change of the strategy and subsequently with the establishment of a new corporate culture or the inclination to the culture of one of the merging companies.

Company management instead of leadership

In a company where managers focus on the in-company management (building of bureaucratic hierarchical structures with a precise, usually centralised decision-making power, organisation of activities and processes, activity control) instead of leadership (motivational drawing, communication, vision formulation and their achievement by means of strategies) more oriented towards the customer and his needs, the corporate culture is developed adequately - as a standard of shared values and conduct. The company management is more concentrated on internal processes and their efficiency, whereas the leadership are concentrating on the company outcomes. In the managed companies the people influenced by the corporate culture are not able to respond in a flexible way to the changing conditions and customers' needs and to modify their systems of values.

Change of the company strategy or its transformation (process reengineering)

Each change within the company requires particularly the support of the company management and the largest possible number of employees. If the corporate culture does not correlate with the future plans, not only the aversion to changes can be expected, but also the obstruction of their implementation. If the management succeeds in implementing the changes, they only last for a short period of time and there is a general inclination to return to "the old routine".

Major changes in the company management or ownership

A change in the company management or ownership usually brings not only changes in strategies and goals, but also requirements for the change of the corporate culture. The

result might be a conflict between the new management and the "conservative" personnel of the company that threaten the new strategy and company goals.

Extensive generation replacement of employees

If a substantial and fast generation replacement of a greater number of employees occurs in the company, it might lead to the development of subcultures corresponding to the employees' age groups. The relations between the subcultures are reflected in poor communication and co-operation and also the new staff refuses to get used to the current company values.

By summarising the manifestations of the company culture and its negative impact on the achievement of company goals and consecutively on the occurrence of crisis states, we can notice them particularly in...

- the absence of support in the area of company goals achievement and non-identification with these goals,
- preference of personal interests and goals and their pushing ahead,
- problems in communication and co-operation with individuals, groups and organisational units leading to the creation of problems to others and non-acceptance of colleagues as internal customers,
- emergence of conflicts, disputes and internal wars,
- problems in team and commission organisation and their efficiency,
- interest in power, development of ginger groups and cliques,
- creation of environment not promoting creativity and innovation and not oriented towards customers and their needs,
- blocking of any changes whatsoever.

A question emerges whether it would be suitable and possible to carry out, as a precaution, the change of the corporate culture prior to the expected changes in the company, i.e. whether or not to carry out generation replacement of the company personnel, change of the ownership or management as well as the corporate culture prior to the change of the strategy, planned transformations and mergers. The biggest challenge is the strong persistence of the corporate culture, deeply rooted in the company - the older the company and the longer the employees are bound to it, the more persistent it is.

This means that...

- the change of the corporate culture is feasible only in a long-term horizon of several years,

- the corporate culture cannot be imposed, but it is a result of a long-term systematic influence on the personnel,
- the change of the corporate culture must take place in the course of the whole period of implementation of the "major" planned changes in the company and also after this period,
- the strongest argument in favour of the change of the corporate culture are the achieved results, i.e. the level of success of the new company strategy, transformation, merger etc.

The change of the corporate culture is undergoing the following phases:

- diagnoses of the current corporate culture and setting determinants having effect on it,
- formulation of the required corporate culture,
- identification of discrepancies between the proclaimed (required) and real corporate culture, which might be a source of a crisis state or problems,
- gradual elimination of discrepancies in the corporate culture,
- diagnoses of the success of the corporate culture changes, reviews and permanent improvement of the corporate culture.

In the current company practice the matters concerning the corporate structure are often beyond the interest of the company management as, reportedly, the company management has to deal with issues of greater importance. However, the experience shows that those companies where the management deals with the corporate culture, either systematically and purposefully or at least intuitively, are more successful in their business activity and the corporate culture does not represent being a greater danger to the occurrence of a crisis state and problems as in those companies where this fact is ignored.

Increasingly the business practice shows that the corporate culture is one of the major factors in achieving competitiveness and competitive corporate advantages as well as the most important company source. It is unique and authentic and if the company succeeds in its purposeful development and continuous improvement, it will lead to the reduction of crisis states and in case of their occurrence, which is inevitable in any business, it is an opportunity to transform them creatively into a competitive advantage.

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First published in Crisisnavigator (ISSN 1619-2400):
Volume 2 (2001) - Issue 2 (February)



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