

CHALLENGES OF ORGANIZATION'S CULTURE CHANGES IN BALTIC ENTERPRISES

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Abstract. This article examines how organisations in the Baltics perceive organizational culture topic, what is managers' understanding and actual activities used for organizational culture change. The results of this study indicate that the topic of organizational culture is one of the priorities in organizations in the Baltics. In most cases, organizational culture change is initiated either by a change in ownership, organizational strategy, entry into new markets or development of new products/services. It seems that there is lack of practice how to approach this topic and notice sense of urgency for necessity to improve organization's culture in other cases, especially because used measures for organisational culture does not measure all organizational culture aspects or is not measured at all. The results show that the organizational leader and the management team are the ones who should determine the organizational culture; however, most of actual or perceived activities for organizational culture change are in scope of Human Resource or Communication professional. The empirical part is based on quantitative research conducted in 2022 surveying 80 managers and 6 qualitative in-depth interviews with managers who have actually succeeded in organizational change activities. The analysis of the information gathered in the research led to the conclusion that managers in the Baltics lack of understanding of how to research and measure existing culture, especially its intangible aspects and proposal to develop a practical methodology for measuring, researching and transforming organizational culture improving success rate or organizational change activities to achieve improve aspects of organization's performance what is affected by organizational culture.

Key words: organizational culture, manager's influence, business development.

JEL code: M14

Introduction

Nowadays, in the business environment, the influence of organizational culture on the company's results, employee well-being and the company's long-term development opportunities is brought up. Building the culture of the organization is directly identified as one of the priorities by business owners and senior managers. The issue of organizational culture has become relevant, firstly, during the Covid pandemic, and secondly, due to circumstances such as mergers, restructuring or change of management. The purpose of the study is to investigate the relevance of organizational culture understanding and improvement for companies in the Baltics, to determine the main reasons for changes in organizational culture and the methods used for organizational culture improvement. The tasks of the research are as follows: (1) to assess the importance of organizational culture topic in Baltic organizations; (2) to find out the key reasons why organizations have initiated organizational culture change; (3) to find out the used methods for organizational culture change; (4) to find out the perception of factors that influence organizational culture.

To reach the conclusions, quantitative and qualitative methods were used for the study conducted in 2022: (1) electronic survey of leaders of organizations operating in Baltic countries (Latvia, Lithuania, Estonia), obtaining the opinions of 80 (eighty) respondents (45% international companies working in Baltic countries, 32% Latvia's based private equity firms, 11% Latvia's public institutions, 7% Lithuania's based private equity firms, 5% Lithuania's based private equity firms); (2) semi-structured in-depth interviews with company executives (6 in total) whose organizations operate in the Baltics or the wider region and who have carried out targeted activities to change the organization's culture; (3) data collection and the obtained data analyses, integration of expert opinions in order to carry out the conclusion. The novelty

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and topicality of the research lie in the search for understanding different aspects of organizational culture. Research covers not only employees' experience, but rather looks from a business perspective and perceives organizational culture as important aspect of organization system as a whole that impacts every aspect of business, including how products and services are designed, how customers are engaged and served, if and how results are achieved.

Research object: organizational culture.

Research subject: relevance of organizational culture understanding and improvement for companies in the Baltics.

Research results and discussion

1. Literature review

Several researchers have indicated the importance of organizational culture and how it affects various business aspects. Author Flamholtz asserts that organizational culture is one of the six key tasks or dimensions that organizations must perform to be successful at each stage of their growth and that determines organizational success or failure (Flamholtz et al., 2000). Researchers have found that corporate culture elements significantly and positively impact quantitative and qualitative organization performance (Arikan et al., 2016) and that there is statistically significant relationship (at 0.05 level) between culture and financial performance (measured by 'EBIT,' or earnings before interest and taxes) (Flamholtz et al., 2001). Organizational culture is also one of the components that lead to job satisfaction, what is making a great difference on economic indicators like productivity, turnover of employees and absence of work (Apsite, 2019).

Organizational culture also impacts organization's future success and capacity to use modern technologies and adapt to more effective working methods. For example, organization culture is considered as an undoubtedly crucial element in knowledge management process as it governs how people behave with respect to creating, sharing and managing knowledge (Apsite et al., 2017) what is prerequisite to create innovations and building competitive advantages in a company. In this respect researchers also refer to the term "learning culture" what can be considered as one way how organizational culture manifests and embeds learning into how things are done in an organization (CIPD, 2020). To enable knowledge sharing within the company, a special role is paid by the existing organizational culture, since certain organizational cultures promote more open information movement among members.

Also, in learning culture topic area, "researchers increasingly emphasize the positive role of knowledge sharing and the advantages to be gained from it by private individuals and organizations. To make organizations successful, specific attention is required for provision of information interaction" (Cekuls, 2015) and develop "communication and knowledge sharing habits as organizational culture values in the organization" (Cekuls, 2016). Among other researches, the focus on special skills development, like digital skills (Buligina et al., 2022) or intellectual capital efficiency (Titova et al., 2022) and its impact on growth rate and profitability of a company or overcome competitive labor-force challenges, are studied.

Also, the implementation of strategic performance management tools is positively related to the organizational culture (Oliveira et al., 2023). Researchers also indicate that some shortcomings in organizational culture are one of the main barriers to company's success in the digital age. The results show that organizational culture has impact on digital transformation (Butt, 2024), is essential for maximizing digital transformation opportunities (Kocak, 2023) and is one of the barriers of using big data

or instead with existing favourable culture of the company can overcome technological limitations (Batranga et al., 2023).

Consequently, there is an incentive for founders and top managers to create organizational culture that supports the organization's strategy or change existing organizational culture towards more favourable one. As Michela and Burke (2000) claim, to change culture, we must first understand it. In order to change or to manage corporate culture, one has to be able to define and therefore pinpoint exactly what it is one is trying to change. Andriukaitiene et al. (2018) argue that all organizational culture enhancement actions must be reasonably planned and coordinated; the effectiveness of the measures taken is evaluated. The authors also refer to a Model for the Excellence of Culture Management (Flamholtz, 2015), which includes six steps necessary for the processes of business enterprise cultural management. While the 1st step is "Define the Culture needed to support long-term success" (desired culture), the second step is "Identify Current culture". Only after gaps between the desired and current culture have been identified and analysed, a culture management plan is developed and later executed.

However, there is no consensus of what 'organizational culture' entails (CIPD, 2022) and organizational culture has been defined by several authors in various ways. One of the most detailed definitions, recognizing culture as a multidimensional concept, is presented by Schein (2010). According to him, "organizational culture is the pattern of basic assumptions that a group has invented, or discovered in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems". Schein (2010) considers that organizational leaders are a key source of influence on organizational culture. How change occurs within organizations will be influenced by the fact that cultures are underpinned by deep assumptions that are shared (Schein, 2010).

2. Empirical study

The study of the Baltic organizations among other things aims also to find out what is the perception of organizational culture concept and factors that determine or influence organizational culture development or change. To get the overall picture, the studies included a survey of 80 organizations that were various by size, business geography (local and international), different industries with different origins of capital, including public sector organizations. Research data does not show significant differences in the results between organizations in different industries, size or origins of capital.

Taking into account organizational culture's impact on business results, one of the tasks of the study in the Baltics was to assess whether managers recognise the importance of organizational culture topic. Thus, survey participants were asked a question: "How important is the topic of organizational culture in your organization?". According to the survey data, organization culture topic is highly important in the Baltic companies as average result is 8,7 (in scale 1 to 10, where 1 is not important and 10-very important). Moreover, survey participants were asked whether they have tried to improve the culture of the organization in the last 2 years, where most participants confirmed that they have tried to change organization's culture (68%) or have recognized the need to improve organizational culture and thus are planning activities to change organizational culture in the near future (11%).

The second task of the study was to find out the key reasons why organizations have initiated organizational culture change. According to the research results, new products/services & markets (24%) and Mergers & Acquisitions or ownership change (21%) are the key reasons for organizational change. In most of Mergers & Acquisitions and Ownership change cases, also change of CEO and partial management team change was reported. Also, in CEO change cases, it is common practice to fully or partially change

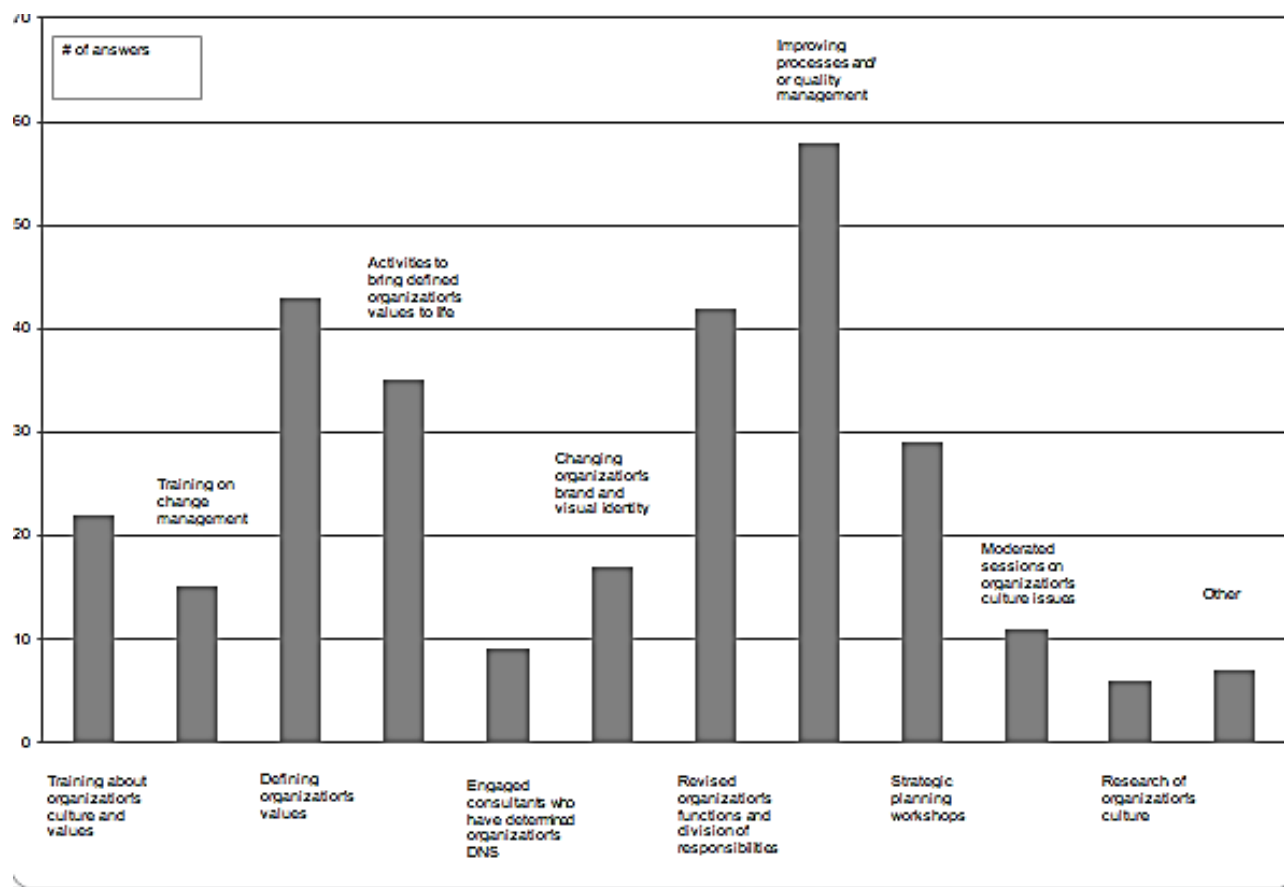
the management team to initiate further organization's culture change. Among other culture change initiators, such factors as implementation of new culture statements and new ways of working were mentioned.

Despite the common belief that Covid-19 pandemic has a large impact on organisation's cultures, the research results show that while 60% of respondents admit that Covid pandemic partly might have an impact on the initiated changes, only 22% of the respondents see that their organization's culture has changed as a result of the Covid pandemic. According to the interview data, managers see that a crisis (also such as a pandemic) sheds light on existing organizational cultural patterns and rather stimulates to prioritise actions to change and improve what in other situations might be postponed.

The survey included also the question, whether culture change activities were successful. Surprisingly, only 32% of respondents claimed that they had achieved desired results, while 60% admitted that only partly, while 8% have not achieved the desired changes at all. The interviewed managers mentioned that organizational change typically originates from two primary sources including change resulting from external or internal environmental factors that are outside the leader's control and change resulting from a planned implementation. It can be summarised that managers who had succeeded in organizational change activities define organizational culture as a living organism who changes over time and that impacts how an organization perceives, evaluates, and reacts to the internal and external factors shaping the environment and that influence all aspects of organization everyday activities. The interviewed managers have admitted that changing a culture has taken more time than they initially expected and that is a large-scale undertaking and eventually all of the organizational tools for changing minds will need to be put in play.

The third task of the study was to find out the used methods for organizational culture change (Figure 1). Most of the respondents have used more than one activity to improve existing culture (on average 3,5 methods).

Among the top activities, most often mentioned are business improvement practices like revising the division of functions and responsibilities, improving processes or quality management and strategy planning workshops. In most cases, these activities are combined with definition of organization's values and respective activities to bring the defined values to life. Overall, the most common methods of changing the culture of an organization are related to internal communication and explaining defined values of the organization, or related to learning. Very few organizations have conducted dedicated research on existing culture and organised moderated sessions on cultural change issues. Thus, it has not been possible to follow six steps necessary for the processes of business enterprise cultural management not in 1st step to define desired culture, not in 2nd step to identify current culture. It is interesting to note that from all the respondents only one organization has developed a road map for culture change after analysing the existing culture research results, which is logical 3rd step for culture management. This might be also one of the reasons why organizational culture change activities are reported not to be highly resultative.

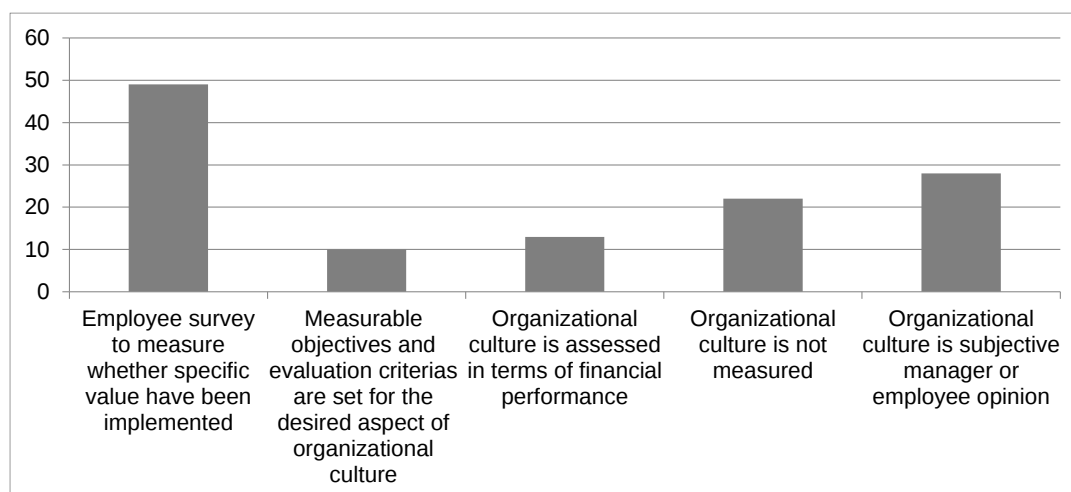


Source: authors' calculation based on received survey data

Fig. 1. Methods used to improve organization's culture

Moreover, according to the research results, 21% of organizations do not measure organizational culture and even larger proportion of respondents believe that organizational culture is subjective assessment of the managers or employees (Figure 2). Thus, in organizational culture context, the usual business practice to set KPIs and follow their progress as well as to notice the red flags is not widely practiced. For organizations that measure organizational culture, the most popular method to measure organizational culture is employee survey. However, in practice, it covers only visible part of organizational culture and is not sufficient for all culture's aspects. Organization's financial performance is a valid measure, if culture change activities give the desired effect. However, if it remains only as a measure, it provides only a short-term view, while organization culture develops throughout the whole organization existence.

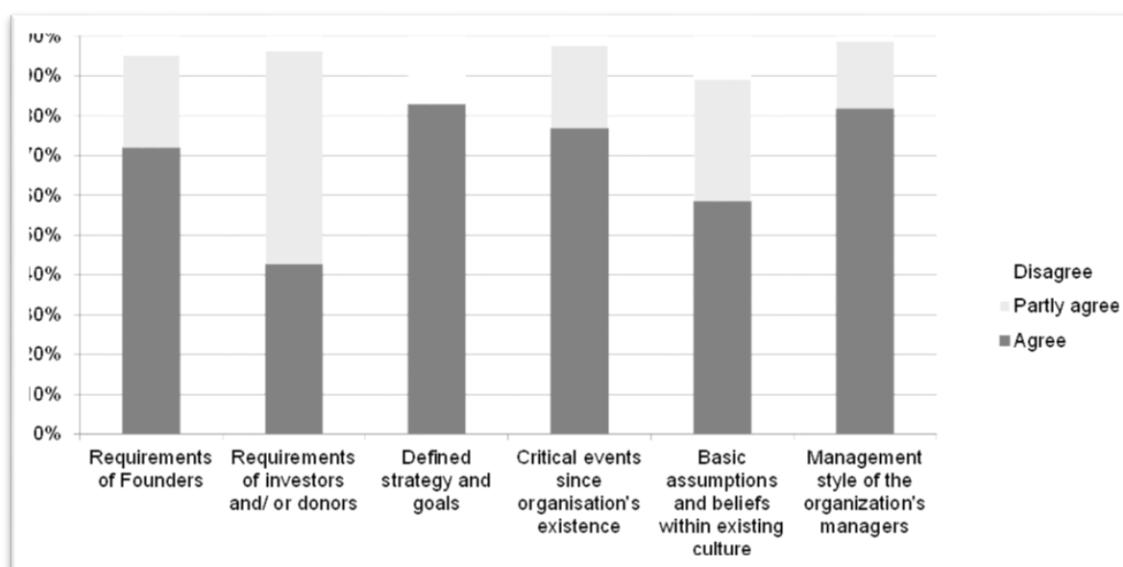
Another task of the study was to find out the perception of factors that influence organizational culture. The survey participants were invited to answer to the open question: "What is organization's culture?". The answers included wide scope of perceptions about organizational culture with the several dominant views: 1) organizational culture consists from individual values and behaviours of the employees; 2) organizational culture is just about the employee experience; 3) organization's culture consists of the patterns that determine how the organization operates and it impacts every aspect of the business. It can be also concluded that used methods for organization's culture change depend on the understanding of the concept of organization's culture.



Source: authors' calculation based on received survey data

Fig. 2. Measuring of organizational culture (number of answers)

In order to understand the perception of what aspects impact organization's culture, respondents were given several statements on factors that should be taken into account when initiating organization's culture change activities (Figure 3). A large proportion of respondents agree that the culture of the organization is influenced by a diverse set of factors, such as the settings, strategy and goals of the founders, the views of the head of the company and the management approach; critical events since the organization's founding and formed basic assumptions and beliefs.

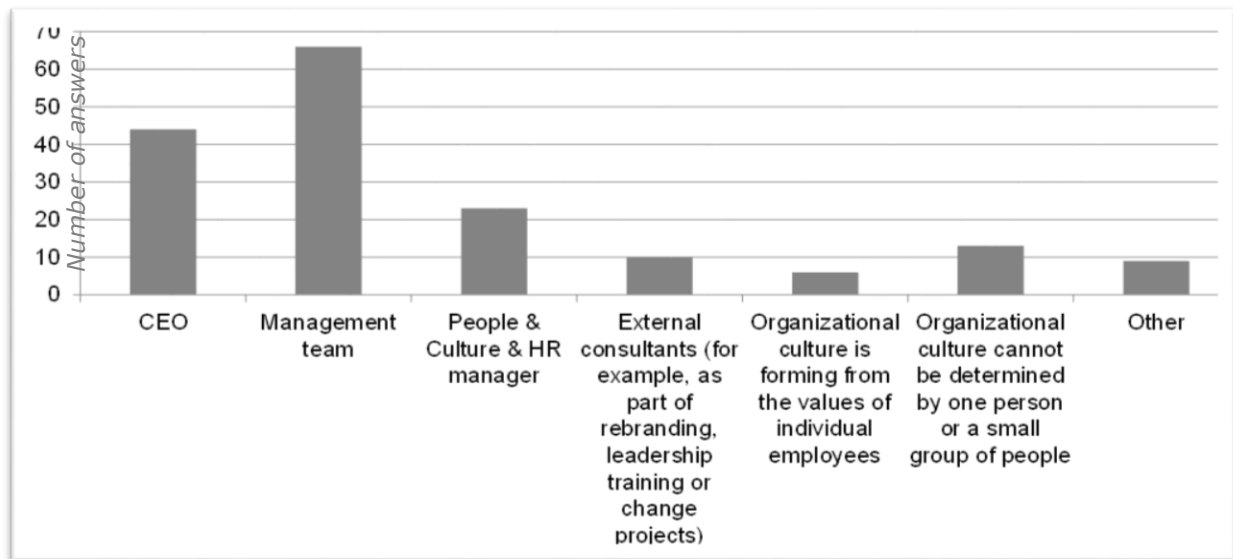


Source: authors' calculation based on received survey data

Fig. 3. Factors that influence organizational culture

Despite the fact that M&A or ownership change is one of the most important factors that has initiated organization's culture change in the last 2 years in the respondent organizations, it is surprising that only 35% of the survey participants think that investors and donors' requirements should be taken into account in culture change activities.

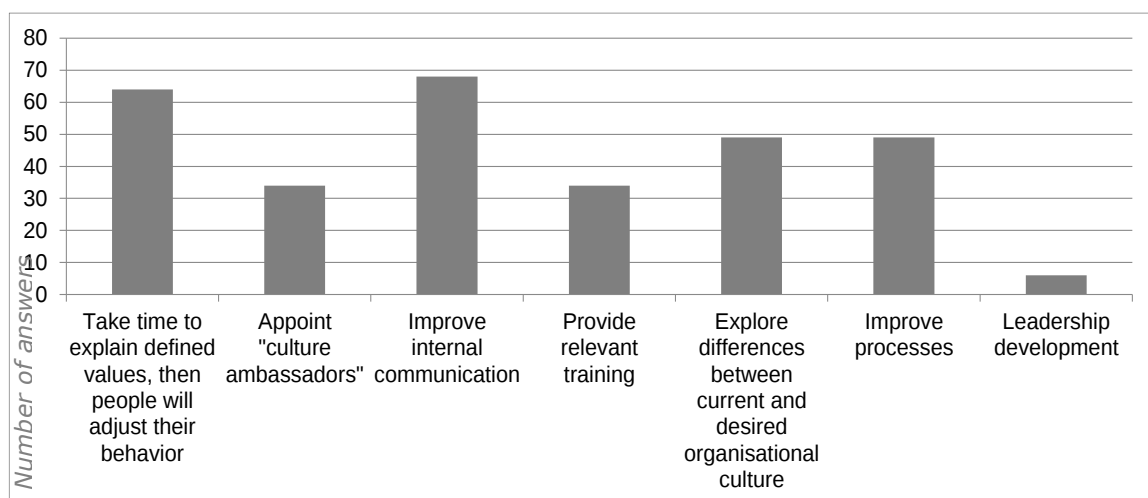
Most of the researched participants acknowledge the influence of the CEO and management team in determining organization's culture. However, 23% of respondents believe that it is the responsibility of HR function or People & Culture Lead (Figure 4). This situation suggests that there are many myths about organization culture observable in organizations in the Baltic region.



Source: authors' calculation based on received survey data

Fig. 4. Who should determine organizational culture?

When questioning about the needed activities to change the current organization's culture towards more desirable one, the respondents on average named at least 3 activities (Figure 5). Even though exploring differences between the current and desired organization's culture is not among the most used methods in practice, almost 50% of respondents have marked it as important to implement desired organization's culture.



Source: authors' calculation based on received survey data

Fig. 5. Activities to change organizational culture

Still, it can be noted that most of the activities and methods admitted as appropriate for organization's culture change by survey respondents are within the scope of HR function alone with limited involvement of management team and organization as a whole.

Conclusions, proposals, recommendations

- 1) Literature review provides a wide range of business result elements that are affected by organizational culture like financial performance, knowledge management, digitalization as well as employee satisfaction and attitude towards learning.

- 2) There is no consensus what organizational culture entails among academics and business leaders. It is clear that organizational culture is a multidimensional concept, and such factors as intangible aspects and shared deep assumptions are the most influential.
- 3) The empirical study confirms that the topic of organization's culture is among priorities on the organization's management table in the Baltics, and most of respondents have tried purposefully to improve their organizational culture.
- 4) In most cases, organization's culture change has been initiated either by the change of ownership or by organizations strategy entering new markets or developing new products/services. It seems that there is lack of practice to discuss necessity of organization's culture change in cases where there is no new management or new strategy that forces organization to transform. Thus, it is recommended to either include organizational culture aspects in strategic KPIs and follow up in strategic goal review meetings or initiate regular research of organizational culture to identify whether it is aligned to and supports organizational strategy.
- 5) Results show that those factors, that survey participants believe have impact on organizational culture, not always are taken into account when culture is purposefully changed. For example, requirements of founders and investors.
- 6) Even though it is a common practice in organizations before changing any other business elements, examine AS-IS state, then define TO-BE state to develop a thoughtful change plan, the pre-research on existing culture and system exposed to changes are rarely done. This might explain why organization change activities do not fully reach the desired results.
- 7) More than 20% of organizations do not measure organization culture aspects. Among others, the most popular measurement method is employees' surveys that cover only part of organizational culture levels.
- 8) Although participants believe that CEO and the management team are the ones who should determine the culture of the organization, the methods used and the activities carried out to improve the culture of the organization mostly include the duties of personnel or marketing and communication specialists. Therefore, the roles of the CEO and management team members in organizational change activities should be clarified.
- 9) It can be concluded that managers in the Baltics lack understanding of how to research and measure existing culture, especially its intangible aspects and there is a need for practical methodology for measuring, researching and transforming organizational culture improving success rate or organizational change activities. Understanding of culture can be useful in two ways. First, cultural insight provides an awareness of the extent to which organization members are willing to accept change and a cultural assessment is likely to determine the root cause of the problems that need stronger performance.
- 10) Authors propose to the continue research to identify the pre-requisites for successful organizational culture change and detect the most appropriate methods to research and measure existing culture and manage the process of changes in organizational culture improvement.
- 11) Authors' recommendation is to continue the research on the methods that could give the most desired results for organizational culture change to achieve improved aspects of organization's performance, which is affected by organizational culture identified by the academic research.

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