



THE IMPACT OF ORGANIZATIONAL CULTURE ON FINANCIAL PERFORMANCE OF THE COMPANY

Bojan Savić

University of Belgrade, Faculty of Agriculture, Republic of Serbia

✉ bsavic@agrif.bg.ac.rs

Sreten Jelić

University of Belgrade, Faculty of Agriculture, Republic of Serbia

✉ sjelic@agrif.bg.ac.rs

Vasili Vasilije Ostojić

University of Belgrade, Faculty of Agriculture, Republic of Serbia

✉ vasilije.ostojic22@gmail.com

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Abstract: Organizational culture as a complex phenomenon has been subjected to numerous researches in the economic science and corporate practice, among which the analysis of the influence of organizational culture on financial performance has an important place, with the basic goal of understanding the link, but also potentially developing "the optimal culture" whose adoption would contribute to achieving optimal financial effects of economic entities. The subject of research of this paper is thus the connection between organizational culture and financial performance, while the goal is to understand the relationship as well as the nature of the influence. Therefore, organizational climate and subcultures were also considered as relevant aspects of organizational culture, but also as a basis for understanding the classifications, as well as its general influences on company business. Based on the review of the most important results of a significant number of researches on this topic, it was concluded that there currently isn't a generally accepted view on the existence of a relationship between different types of organizational cultures and financial performances. Thus this paper was designed as a review of the topic and could be used as a theoretical basis for future research or for the development of alternative approaches in the analysis of causality between the observed phenomena.

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1. Introduction

The beginnings of wider scientific and professional interest in the phenomenon of organizational culture are related to the period of expansion of Japanese companies, which managed to transfer part of the national culture into the work of organizations and thus make them competitive with the American and Western European economies (Lim, 1995). Since then, organizational culture has been the subject of interest of managers, striving to improve the management practice of their companies, but also the academic public, which tries to adequately define, systematize and generalize common characteristics of organizations to form their distinctive types.

Organizational culture as a system of common assumptions, values, norms, opinions, and beliefs of employees in a company is a phenomenon with a social, economic, as well as an organizational dimension, which consequently implies a certain impact on the financial performance of a company. The subject of this paper is therefore the connection between organizational culture and corporate financial performance, while the research aim is to define the relation, as well as to understand the nature of influence, by considering organizational culture as a complex phenomenon, and then by reviewing past research results in the analysis on the connection between organizational culture and different financial performances.

Various research methods were used in this paper, such as descriptive analysis, synthesis (to connect similar research results), compilation (insight into earlier research results), classification, systematization, description, and others. The paper summarizes the research results of a significant number of studies that analyzed the link between organizational culture and financial performance of companies from different countries but also uses theoretical papers which considered organizational culture and other related phenomena.

2. Organizational culture, organizational climate, and subcultures

From the first book dedicated to the study of organizational culture "The Changing Culture of a Factory" by Jaques Elliott in 1952, a single, comprehensive definition of organizational culture is yet to be adopted. Most authors agree that common assumptions, values, norms, opinions, and beliefs of a microsocial environment that makes up an economic entity (company or other organization) accepted through a common long-term experience in solving problems is the core of any organizational

culture (Schein, 1985, Živković and Munćan, 2012, Kim et al, 2004 and Stevanović, 2009). Such a designation already indicates the potential connections between the organizational culture and business results. The theoretical approach implies the impact on corporate success and productivity, as well as on "more subjective dimensions", such as work atmosphere and efficiency, the development of a sense of loyalty of workers to the company, further encouraging learning and development processes, etc (Stevanović, 2009). The basis of organizational culture is its employees, who by working in the company contribute parts of their ideas, opinions, and beliefs, but also abilities and skills. Their accession, in addition to belonging and contributing to work, also means accepting the existing organizational culture, which is then seen as a desirable model of thinking and behavior (Živković and Munćan, 2012).

The overall organizational culture is presented to employees and other stakeholder groups through the statements of mission, vision, strategy, and business goals. The state of accessibility to decision-making and authority, information systems, but also the speed of action, tolerance towards differences, existing methods of control, emphasis on teamwork, openness to the environment, and manner of communication are some of its most common noticeable forms (Živković and Munćan, 2012). Organizational culture is one of the key factors that shape structures, systems, and approaches in defining and developing a company's strategy (Stevanović, 2009). The nature of the reaction to the changes in mission, strategy, goals, and individual activities in the company, will primarily depend upon their compliance with the existing organizational culture. The previously mentioned property is considered especially important for the efficiency of implementation and adoption of most changes in the company, especially in cases of top to bottom approaches (Živković and Munćan, 2012). In the last twenty years, this approach has become less common in corporate practice and is being replaced by encouraging employees to participate in the processes of creating and managing changes in their organization (Vukotić et al, 2016).

One of the goals of enterprise managers is managing the organizational culture, which consists of phases of management creation, maintenance, and change (Čukavac, 2020). The opinion of some authors who recognize the possibility of directly influencing some elements of organizational culture (symbols, jargon, and employee behavior) is that the effectiveness of this process primarily depends on the way other employees think, which managers often cannot purposefully influence (Obradović et al, 2003).

There were also different attempts made to define the universal properties of every organizational culture. It is believed that every culture is characterized by divisibility (not universal or unchangeable and is always shared among employees), symbolism (based on a particular human notion), non-existence of an initial origin (acquired),

transferability between generations, and adaptability (Živković and Munćan, 2012). According to Schein, organizational culture consists of five universal levels, namely fundamental assumptions, values, behavioral norms, patterns of behavior, and artifacts and symbols (Schein, 1985). Schein considers the basic assumptions to be the most important element and the core of organizational culture. Each subsequent level is more noticeable and potentially easier to change, and the author emphasizes the relative stability of basic assumptions and values over time.

Reflections of the current state of organizational culture are defined as organizational climates. In other words, they represent an environment that shapes the attitudes and opinions of employees based on the existing organizational culture. Its dimensions reflect different perspectives in understanding and implications of culture on the company and its interest groups. Below is an overview of one of the systematizations of the dimensions of the organizational climate with their basic interpretations (Table 1).

Table 1. Dimensions of organizational climate

No.	Dimension	Meaning
1.	Individual initiative	Responsibility, freedom, and independence of the individual as a part of the organizational culture
2.	Risk tolerance	The degree of individual readiness to accept risks
3.	Guidance	Clarity of organization's goals
4.	Integration	Degree of coordination between functional units in the organization
5.	Management contact	Provision of support, assistance, and communication opportunities
6.	Control	Rules, regulations and the degree of direct supervision over employees
7.	Reward system	Level of conditionality of award allocation and employee performance
8.	Conflict tolerance	Encouragement to overcome conflict situations
9.	Identity	The degree of identification of employees with the organization as a whole
10.	Openness to the environment	The degree of openness to new ideas that come from outside the organization
11.	Communication models	Similarity to the existing system and the formalized line of hierarchy in communication

Source: Živković, D. and Munćan, P. (2012). *Menadžment poslovnih sistema poljoprivrede*. Beograd: Poljoprivredni fakultet.

Managers influence the dimensions which shape the organizational climate, most often through personal and reward policies, as well as different leadership styles (Vukotić et al., 2016). A different system of dimensions was defined by Litwin and

Stringer. According to them, nine different elements are recognized in the organizational climate, namely organizational structure, warmth, support, reward, punishment, conflict, standard, individual responsibility, and identity (Muchinsky, 1976).

Subcultures are closely related to organizational culture and climate. They are characterized by a narrower coverage than organizational culture (for example, a group of workers or a level of managers), greater precision, and at least a partial deviation from the general culture (Živković and Munčan, 2012). An organization can have only one culture, but many subcultures, which can be differentiated vertically (hierarchically), horizontally (as a result of the division of labor and specialization at the same level), or diagonally (including other criteria such as prior education, profession, social status, origin, nationality, interests, etc.). Subcultures emerge with the complexity of the organization and later develop concurrently with the organizational culture. It can also be said that organizational culture is a "common denominator" or a universal agreement, while subcultures represent reflections of individual ties and specifics of different groups of employees.

3. Classifications of organizational culture

Research on the links between organizational culture and other phenomena is most commonly based on Roger Harrison's classification of organizational culture, later perfected by Charles Handy, who distinguishes four standard types of culture: power culture, role culture, task culture, and support culture. (Handy, 1995). The author symbolically named different types of organizational culture after Greek gods (which is why the original book was named "Gods of Management") - Zeus (culture of power), Apollo (culture of role), Athens (culture of task), and Dionysus (culture of support).

In practice, a company with an undisputed leader, who assumes responsibility for all risks and on whose abilities the company's survival largely depends, is an example of a culture of power, while a clear division of labor in an organized work environment is a typical example of a culture of roles. Focus and dominant teamwork towards the execution of specified goals are key traits of a task culture, while individual approaches and subordination to individual interests are properties of a support culture (Table 2).

In addition to the previous systematization, some authors developed their classification based on the way an organizational culture manifests itself towards employees. Thus, it is also possible to distinguish organizations with an extremely good, unclear, unbearable, bureaucratic, and innovative culture (Živković and Munčan, 2012). According to the motives of employee interaction, organizational

culture can be constructive (in order to meet higher needs), passively defensive (to protect one's own security), and aggressively defensive (aggressiveness in order to defend status and provide security). The first type has a positive effect on the performance of employees and the organization, while defensive models have a negative impact on both levels (Janićijević, 2015). The previously described types represent possible general models of organizational culture, whose characteristics are manifested differently in different groups of employees, which is why the previously described subcultures form at later stages of company development.

Table 2. Types of organizational culture according to Charles Handy

Element	Types of organizational culture			
	Power culture	Role culture	Task culture	Culture of support
Focus	Leader	Division of responsibilities	Jobs and tasks	Individual goals
Leadership and responsibility	Autocratic leadership and paternalism	Distinctive hierarchy	Teamwork and competition	Individual autonomy
Source of power	Leader's charisma or resource control	Position in the hierarchy	Expertise	Expertise
Basic advantages	Rapid response and flexibility	Efficiency and reliability of work	Initiative, flexibility, creativity, and efficiency	Freedom and creativity
Basic disadvantages	Leadership competence risk (frequent incompetence of middle management)	Closedness to the environment	Superficiality and competition among employees	Loss of obligations and danger of disintegration of the organization

Source: Author's processing according to Handy, C. (1995). *Gods of Management - The Changing Work of Organizations*. New York: University Press.

4. The influence of organizational culture on company business

Since organizational culture cannot be isolated from people, it could be said that there is no area of business that it does not affect, whether the company is analyzed by breaking down the organizational structure, functional departments, or groups of

employees based on their competence (Janićijević, 2015). However, it is possible to identify the most important general influences, ie those that directly determine the fulfillment of the basic goals of the organization (Živković and Munćan, 2012). Organizational culture manages ideas, in a way that defines the desirable and the undesirable. The impact on the technology used is a consequence of the specific knowledge and skills of employees, as factors that affect the quality of products and services that the company offers. The type of products and services and the way of production are also determined by the organizational culture because they depend on choices, beliefs, notions of quality, attitudes, and many other factors that it shapes. The type of culture altogether implies a certain strategy, organizational structure, salary, control system, leadership style, and more (Janićijević, 2012).

When it comes to measurable company results, the nature of organizational culture as a resource makes it a potential competitive advantage, ie a source of performance improvement, given that it is a resource that is rare, valuable, difficult to imitate, and widespread in all areas of business. At the same time, the existing culture can encourage wrong choices of the development strategy, and key components of competitiveness or cause closure and misinterpretation of the environment, as well as non-use of internal potentials and thus threaten the survival of the company. There is also a reciprocal influence, ie the performance of the company determines the organizational culture (Janićijević, 2011). Good performance establishes existing cultural values and norms.

Although a large amount of research has been conducted in the field of organizational culture and performance, many authors point out that there is no consistency in the used operational definitions of organizational culture, methodology, and measurement systems, causing inconsistent results, regardless of the implemented group of methods (Kim et al. 2004, Lim, 1995 and Salih and Ahmet, 2012). Namely, the qualitative approach makes it difficult to compare studies due to possible deviations in research methods, as well as testing hypotheses and developing theories, especially in cases of larger numbers of studies that need to be conducted (Schein, 1990). The quantitative approach has been criticized, among others, by Ott, who concluded that surveys have often been designed in line with the interests of top management and owners, thus negatively affecting the reliability of many results. The same author proposed a combined approach, ie. a simultaneous application of qualitative and quantitative methods (Ott, 1989). The main argument on which this view is based on is the discovery of other factors which determine organizational culture and company performance, such as organizational innovation, management style, and knowledge conversion, whose influences are often impossible to isolate (Zheng et al, 2010).

Research on the impact of organizational culture is even more complex if the stage of company maturity is included in the analysis. Namely, the existing culture in the initial development phase of an organization is practically unchanged, since its stability protects employees from uncertainty and various risks during the period when the question of initial market positioning is being tackled (Živković and Munćan, 2012). On the other hand, at the later levels of maturity, a change in organizational culture can be seen as desirable, in order to regain flexibility, often characterized by new companies. The previously mentioned should be considered as another aggravating circumstance for interpreting many results because it implies a different role of culture in accordance with the current development stage of an organization.

5. Organizational culture and financial performance of the company

In the late 1970s and early 1980s, the prevailing view was that there is a link between organizational culture and the financial performance of the company. Some kind of connection was found by many authors (Ouchi and Johnson, 1978; Pascale and Athos, 1981; Ouchi, 1981; Peters and Waterman, 1982; Denison, 1984). Although it would be worthwhile to analyze and research the approach, sample size, structure, applied definitions, and other specifics of each study, this paper will provide a comprehensive overview of the most significant features and problems of these studies, which encouraged researchers to continue examining the link during the 1990s, and to this day not reach a consensus on whether the link even exists in the first place.

The effect on profitability and sales growth are the most commonly used measures in all analyses of the impact of organizational culture on corporate financial performance. The return on assets (ROA) and equity (ROE), return per share, sales indicators, and others were used as indicators of a company's success measured from different perspectives. However, in the context of analyzing its link to the existing organizational culture, this approach implies a uni culture, since the previously mentioned indicators are calculated globally, ie for the company as a whole. This summarizes the effects of subcultures, which develop simultaneously as the company continues growing (Siehl and Martin, 1989). The indirect assumption of uni culture and the generalization of the effects of subcultures is unfounded, especially if the research subject of the initial studies is taken into account, which mostly consisted of large companies with developed organizational cultures and subcultures. Micro and small entities, for which the previous premises would be more acceptable, were most often excluded from research samples due to doubts about the reliability of ratio indicators, ie lower quality of financial statements.

This approach also implies the existence of a "strong culture", ie a certain type of organizational culture that, under given conditions, ensures the achievement of optimal financial performance. Critiques are also based on the problem of different interpretations of terms in questionnaires in relation to distinctive groups of employees, as the basic sources of data for the implementation of quantitative

research methods (Siehl and Martin, 1989; Lim, 1995). Namely, it is suspected that there is a high probability that the key concepts in questionnaires, such as participatory management, teamwork, and cooperation don't have the same meaning to all employees because of the existence of subcultures, whose effects are generalized by the use of ratio indicators.

The most frequently highlighted problem of the original research papers was the adopted approach to sample formation (Siehl and Martin, 1989; Lim, 1995; Kim et al, 2004). Successful companies were often isolated and analyzed while average and below-average entities were usually left out. The size of these samples also varied significantly, from 13 companies in the study by Ouchi and Johnson to 62 companies that were included in the research done by Peters and Waterman.

A few years after Denison's study, Martin et al. concluded that there was no link between organizational culture and financial performance after analyzing data from 100 randomly selected entities from the 500 largest industrial companies in the United States (Martin et al, 1988). A detailed analysis of the text from the financial reports of these companies and insight into the business area that the top management considered a priority was used to form eight types of organization profiles (people - focus on employees and teamwork, product, quality, innovation, social responsibility, customer support, finance – focused on achieving company goals, and economy - the emphasis is on the state of the national economy). The authors of this study believed that these results have greater reliability because of the relatively large sample, as well as the random selection process of successful companies. The nature of the data source itself was assessed as a serious limitation because the content of financial statements is largely a reflection of the perspective of the top management. The previously mentioned could also be seen as an additional general limitation in the attempts to analyze the relationship between the two aspects of a company.

In 2001, Flamholtz conducted research in twenty divisions of the US-based Banner Corporation. Data was collected through a questionnaire, which was filled in by senior managers. The results showed a statistically significant relationship between organizational culture and financial performance, and the study confirmed the existence of a link between organizational culture and management success and overall profitability, measured as earnings before taxes (Flamholtz, 2001).

A survey conducted in Turkey in the same year did not confirm the existence of a link between financial performance and organizational culture, nor between a high distance power and organizational culture (which is also a common feature of developing countries' cultures). The authors pointed out that the obtained results support the thesis on the significant influence of mediating factors (organizational innovation, management, and knowledge conversion). It is also assumed that the

application of other measurement systems (for example, the Balanced Scorecard) and other indicators related to employees could potentially produce different results (Paşa et al, 2001).

In 2003, Abdul Rashid et al. surveyed a sample of 1.036 managers to examine the relationship between organizational culture, expressed through four dimensions (competitiveness, entrepreneurship, bureaucracy, and common culture), and financial performance, measured by two global indicators of total asset and investment rentability (ROA – Return on Assets and ROI - Return on Investments) and the current liquidity ratio (the ratio of total working capital and current liabilities). Based on the results, it was concluded that financial performance is influenced by both the organizational culture and the commitment (loyalty) of employees to the organization (Abdul Rashid et al., 2003). It was also noticed that the management team occasionally had difficulties in implementing changes in companies with a long-developed organizational culture (business tradition).

The link between organizational culture and the previous group of performances was also analyzed by Booth and Hamer in the United Kingdom. For the need of creating a research sample, over 100.000 valid questionnaires from over 500 companies (stores) were processed. The authors measured the characteristics of organizational cultures through the following dimensions: employee morale, job satisfaction, resources and supporting infrastructure, and manageable workload. The achieved sales volume was used as a financial measurement. A significant link between the two elements has been concluded (Booth and Hamer, 2009).

In 2013, Yesil and Kaya conducted research on companies from the Turkish city of Gaziantep using regression and correlation analysis (Yesil and Kaya, 2013). The results, in this case, did not confirm the existence of a link between any dimension of organizational culture and the used financial performances (sales volume and ROA). The hypothesis of a negative impact of long-distance organizational cultures on financial performance has also not been confirmed.

Guiso et al. used the S&P 500 of the US Standard and Poor's 500 to examine the relationship between organizational culture and the financial performance of an organization, with additional reference to market capitalization. The authors did not discover a statistically significant relationship between organizational culture and the measurements of financial performance, nor between the culture and market value of the organization (Guiso et al., 2015).

Following the footsteps of the previous research, but in the case of private Chinese companies, Zhao et al. conducted research in 2018 with a similar goal. They also concluded a nonsignificant link between organizational culture and financial performance or market capitalization, but there is a strong conditionality of the overall promotion of organizational culture and company value, which is why the authors highlighted that organized implementation of these activities should be considered of particular importance for a company's long-term success (Zhao et al, 2018).

6. Conclusion

Different approaches to defining organizational culture were discovered by analyzing the existing body of research. Most authors point out that the essence of the culture of every organization are common assumptions, values, norms, opinions, and beliefs, which employees adopt through long-term experience in solving problems of the organization. At the core of any organizational culture are people, who shape and change it with their personal beliefs, values, knowledge, and skills. Of particular importance for managers is the management of organizational culture in order to achieve optimal effects of an adopted change in the company. From the point of view of other employees, a change is accepted or rejected in the context of compliance with the organizational climate.

One of the most frequently cited and used classifications of the types of organizational culture was presented, which recognizes the culture of power, roles, task, and the culture of support. The organizational climate is a result of the current state of the overall culture, while subcultures are being developed as a consequence of the complexity of the organization as they reflect the individual relationships and specifics of different groups of employees. The general influence of organizational culture has been identified in the areas of management of ideas, technology, and the creation of products and services. It was also noted that from the point of company success, organizational culture as a specific resource can be both an incentive and a limiting factor.

In papers researching the influence of organizational culture on financial performance, significant methodological discrepancies were noticed, ie the use of different definitions of organizational culture, as well as diverse systems for measuring its characteristics, which significantly limits the possibility of properly comparing or summarizing the results of a large number papers. Since the 1980s, when the basic shortcomings of the original research were identified (frequent use of global financial indicators implying a uni culture, ie summarizing the effects of subcultures, the assumption of a "strong culture", potentially different interpretations of the key terms in questionnaires in relation to the position of an employee in the organizational hierarchy, and financial statements as a consequence of management's perspective) whose common conclusion was the existence of a relationship, till the present day, no agreement was reached on the existence of a link. Of the presented papers, the existence of a relationship of some sort was found in three cases (Flamholtz; Booth and Hamer; Abdul Rashid et al.), while five studies concluded that there is no significant link (Martin et al.; Paşa et al.; Yesil and Kaya; Guiso et al. and Zhao et al).

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UTICAJ ORGANIZACIONE KULTURE NA FINANSIJSKE PERFORMANSE PREDUZEĆA

Abstrakt: Organizaciona kultura kao složen fenomen do sada je bila predmet brojnih istraživanja u ekonomskoj nauci i korporativnoj praksi, među kojima važno mesto zauzimaju analize uticaja organizacione kulture na finansijske performanse, sa osnovnim ciljem razumevanja veze, ali i potencijalnog razvoja „optimalne kulture“ čije bi usvajanje doprinelo maksimizaciji finansijskih performansi ekonomskih entiteta. Predmet istraživanja ovog rada stoga je veza između organizacione kulture i finansijskih performansi, dok je cilj spoznaja veze, kao i razumevanje prirode ispoljenog uticaja. Organizaciona klima i subkulture su u tom smislu takođe razmotreni kao relevantni aspekti

organizacione kulture, ali i kao osnove za razumevanje klasifikacija i opštih uticaja organizacione kulture na poslovanje preduzeća. Na osnovu pregleda najvažnijih rezultata značajnog broja istraživanja u ovoj oblasti, zaključeno je da i dalje ne postoji opšteprihvaćeno stanovište o postojanju veze između različitih tipova organizacione kulture i finansijskih performansi. U tom smislu rad može poslužiti kao teorijska osnova za buduća istraživanja, ali i za razvoj alternativnih pristupa u analizi kauzalnosti između posmatranih fenomena.

Ključne reči: organizaciona kultura, finansijske performanse, subkulture, organizaciona klima, preduzeće, „snažna kultura“, korporativno upravljanje.

Authors' biographies

Bojan Savić, Ph.D., is an associate professor at the Faculty of Agriculture, University of Belgrade. He also teaches at the Military Academy, University of Defence. He teaches the following courses for undergraduate, master's, and Ph.D. studies: Financial Analysis, Principles of Finance, Principles of Financial Management, Cost Accounting, Cost Management, Special Purpose Financial Statements, Financial Reporting, and Auditing. His research focuses on financial reporting, environmental management accounting, sustainability, and corporate finance.

Sreten Jelić, Ph.D., is a full professor at the Faculty of Agriculture, University of Belgrade. He teaches the following courses for undergraduate, master's, and Ph.D. studies: Sociology, Sociology of management, Rural sociology, Contemporary theories of economic development, and Introduction to scientific research work. His research focuses on general sociology, sociology of management, sociology of villages, agriculture, rural development, social ecology, education, infrastructure, and human resources.

Vasili Vasilije Ostojić, BSc, is a student demonstrator at the Faculty of Agriculture, University of Belgrade. He teaches the Agricultural accounting course within the undergraduate studies of Agro-economy. As an undergraduate student, he received numerous awards, including the award of the Foundation of Nikola Spasić for the best first-year student of the Faculty of Agriculture in the academic year 2017/2018, and the award of the Faculty of Agriculture as the best student of the Agro-economics department. In the year 2018/2019 he received the scholarship of the City of Belgrade, as well as the scholarship "Dositeja" of the Fund for Young Talents of the Republic of Serbia two times in the academic years 2020/2021 and 2021/2022. He is currently a master's student at the same Faculty, in the department of Theory of costs, accounting and finance studying Finance management, and operations in agribusiness.