

# CORPORATE CULTURE AND ITS IMPACT ON HR

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## Abstract

Corporate culture has a substantial impact on HR management including compliance in human resources. Ethical values are mirrored in corporate culture and directly affect application of legal norms, structuring of and compliance with internal processes as well as management styles in HR. The contribution covers current research on corporate culture and the multidimensional connection among corporate culture, compliance and human resources. It focuses in particular on the relationships among corporate culture, human resources, human resources management and overall compliance of the company, which are mutual and reciprocal. The main objective of the contribution is to provide complex analysis of interconnection between corporate culture and HR management and its implications from legal and managerial perspective. In order to comply with the objective, qualitative as well as quantitative methods of research were deployed, with the emphasis on the former. As a result, the impact (either positive or negative) of corporate culture on HR, HR management and HR compliance has been assessed.

**Key words:** corporate culture, soft compliance, human resources

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## Introduction

Corporate culture has substantial effect on human resources, human resources management and compliance of the organization, both inwardly and outwardly. The relationship is mutually reciprocal. In terms of human resources, a solid corporate culture promotes engagement of employees, inspires quality candidates to participate in recruitment processes and supports long-term employment relationships as opposed to fluctuation. Due to globalization, shift of paradigms overall the society as well as reinforcement of “modern” values in corporate life (e.g. work-life balance, diversity, business ethics, and ethical and sustainable business models, transparency, open communication etc.), the corporate culture as well as approach to human resources and human resources management is changing.

As corporate culture directly affects human resources and human resources management and vice versa, the one cannot change without the other. The more solid, transparent and sustainable the corporate culture is, the more satisfied and value-oriented the employees and managers are and the more positive impact on overall performance of the company there is. The same applies in the opposite direction as a corporate culture based on extreme competitiveness, searching and promoting “natural” talent (as opposed to continuous learning), covert discrimination or strictly hierarchical (authoritarian) structures may contribute to non-compliance (in extreme cases resulting in violation of legal regulations such as creative accounting, corruption and bribery schemes etc.) and lead to decrease in performance of the company in the long run as well as to dissatisfaction, decreased motivation and increased fluctuation of employees.

The role of HR management in creating, implementing and sustaining a solid corporate culture is substantial. HR managers may be viewed as architects, builders as well as protectors or supervisors of the corporate culture. They are responsible for clearly defining the corporate culture as well as openly communicating this concept to employees. They should engage employees and managers throughout the whole organization in co-creating, understanding and living the corporate culture. In other words, they are the ones who should walk the talk in the first place.

## **1 Theoretical Background**

Corporate culture is a term that has been used in many contexts and fields of study. Its definition may be also viewed from various angles. As cited in Rowden, corporate culture may be defined in an informal yet straight to the point way as „the way we do things around here“ or „the glue that bind the organization together“ or in a more scholarly manner as “the shared basic assumptions and beliefs developed by and organization over time.” (Rowden, 2002). Regardless of its definition or attempts for such, there is a certain “je ne sais quoi” that makes it hard to pin point. It is exactly this enigmatic quality that makes research of corporate culture so intriguing, in particular when taking into consideration its tremendous impact on human resources and human resources management.

Similarly, Rowden emphasizes that having a well-defined corporate culture is important as globalization transforms the way business is conducted. A well-defined corporate culture can create an atmosphere for success. (Rowden, 2002). In today’s world

globalization has opened new doors to human resources management and compliance based on values shared by the multinational company in all countries where it operates.

Thus localization of best practices as well as codes of conduct or ethical codes and internalizing values of the company worldwide enables a more universal and strategic approach to human resources management as well as a more unified corporate culture all over the globe. As Moosmüller puts it instead of diminishing cultural diversity, globalization has actually nurtured it. (Moosmüller, 2016) Thus an up-to-date concept of corporate culture has to take into account diversity as one of the key characteristics of modern workforce and reflect it as one of the core values.

In addition to the impact of globalization and diverse nature of human resources in (usually but not exclusively) multinational companies, the new values and expectations of employees have to be analyzed as well. According to Lazanyi the results (of several studies) indicate that the workplace behaviour of generation Z employees is radically different from that of older generations'; hence managers have to put conscious effort in fostering good interpersonal relations of colleagues. The results also indicate that respect and trust towards superiors are not automatic; they have to be earned through professional excellence (Lazanyi, 2017). This is a crucial implication for designing a corporate culture as well as corporate governance on a less centralized manner and making each employee matter.

As Mura correctly states the success of businesses and institutions is determined by high quality of human capital. The businesses and organizations are supposed to have enough high-quality, properly motivated and educated workforce to achieve their objectives. (Mura, 2018) In order to adequately motivate the employees as well as to train and retrain high quality human resources, corporate culture must implement such concepts as continual development (including learning and training of employees) as well as continual education leading to improvement of skills of workforce in ever-changing world.

In addition to standard motivational tools, it is crucial to build a corporate culture on robust values implemented and lived by the whole company. In this regard, Seilerová covers a relatively new topic of psychological workload that may affect the employees and is directly connected to their work-life balance as one of the aspects of corporate culture (Seilerová, 2019) Thus psychological aspects of the employment relationship may be directly affected by corporate culture. The key issue is whether the corporate culture is based on competitiveness or so called search for talent or vice versa. The corporate culture based on cooperation and respect for work-life balance may be much more beneficial for the company in the long-run.

As Vydrová suggests, the goal of each employer is to have loyal and satisfied employees (Vydrová, 2018) Corporate culture may directly influence this objective as it has potential to affect the overall wellbeing of the employee. In companies with open, cooperative and transparent corporate cultures, the employees thrive and their individual differences are many times considered as individual strengths. In this regard, the role of human resources management is crucial as these core values of the company are promoted by HR managers to a substantial extent. It is also important to note that as Vlacseková claims employees are more motivated by intrinsic factors rather than extrinsic (Vlacseková, 2017). Corporate culture is indisputably one of those factors as it may either help the company and its human resources department to make it or break it.

Another key topic connected to corporate culture and human resources is the topic of corporate ethics as well as soft compliance, including compliance with standards of corporate culture of the company. According to Singh, business and business ethics include the following areas:

- ethical standards in business;
- rules of good conduct;
- rules, rights and morals that govern the interaction and relationships between the organisation and the data subjects (stakeholders), including society as a whole. (Singh, 2020)

Thus corporate culture may be directly linked to compliance of the company in terms of following internal procedures and standards as well as external rules and regulations (including legal regulations) - by employees and managers on all levels of organizational structure.

The last key concept to be defined is the concept of human resources management as such. HR management may be defined as „designing formal systems in an organization to manage human talent for accomplishing organizational goals. (Mathis, 2017) Olšovská emphasizes the multidimensional character of HR management stating that the main task of personnel management is to focus on the multiple dimensions of working with people. (Olšovská et. al, 2016) From this perspective, designing a meaningful corporate culture that may positively impact employees as well as simplify HR management (as well as management on any other level) is enormously helpful in creating and sustaining successful companies.

In Slovakia, hierarchic corporate culture prevails in companies owned by Slovakian shareholders whereas clan corporate culture or market corporate culture is typical for

companies with foreign capital (Vetráková, 2015). Each type of corporate culture has its specific characteristics that have been thoroughly explained in the previous research.

## **2 Objective, Material and Methodology**

The main objective of the contribution is to analyse the convoluted and intertwined relationship between corporate culture, human resources, human resources management and overall compliance of the company. The two additional objectives are to reflect on current trends in development of human resources due to globalization and changes in the society as such and to assess positive and negative impacts that corporate culture may have on human resources and vice versa.

The methods used are primarily qualitative, including comparison of studies carried out in the studied field as well as scientific and academic literature (mostly papers published in international periodicals and conference papers) in recent period. Concerning scientific methods, critical analysis as well as abstraction and comparison is used. The contribution is based on a multidisciplinary approach, using data not only from the research on HR management but from HR compliance management with the focus on soft compliance as well. Statistical data result from a study on the impact of corporate culture on human resources in Slovakia that had been carried out in 2014 by Vetráková and Smerek on the sample of 3284 Slovakian enterprises. (Vetráková, 2015). Additional interviews with representatives of Slovakian-owned companies and Slovak branches of multinational companies were carried out in order to compare, contrast and analyse the results.

## **3 Results and Discussion**

### **3.1. Corporate culture, HR management and HR compliance**

Corporate culture is an essential part of HR management and HR compliance. Efficient HR management, HR compliance and corporate culture act as combined vessels – one without the other simply does not work. Externally, the creation of a solid, sustainable and employee-friendly corporate culture helps to attract and sustain the high quality human capital needed for successful and thriving organization. Internally, such corporate culture directly impacts the level of engagement and decreases turnover of employees and helps HR managers to contribute to effective HR compliance (Mura, 2017)

In terms of overall compliance of the organization as well as HR compliance, building and sustaining a culture of compliance is one of the essential preventive means in compliance

management. The company's employees who adopt corporate culture and values such as integrity, transparency and (personal) responsibility are often much more beneficial to the company than the fully processed and detailed compliance documentation. (Nosková, 2020).

Given the huge importance of the behavior shareholders, members of the statutory or supervisory bodies (depending on the set-up of the company's management structure) and managers vis-à-vis other employees as well as the company's business partners, it is essential to build a corporate culture based on "leading by example." This is to ensure that the corporate culture is consistently adopted by the company's management so that it can be further instigated by employees and insisted on its compliance also by the company's business partners. At the same time, it is necessary to ensure that all employees are not only able to acquaint themselves with the values of the company and the "feeling" of corporate culture, but also to learn them. This may be achieved e.g. through training sessions where they are directly confronted with situations that may arise – e.g. different ethical dilemmas, corrupt behavior that is not clearly identifiable, pressure from business partners, inappropriate behavior of a colleague etc. (Singh, 2020)

From the philosophical point of view, the basis for creating a stimulating yet solid corporate culture in a company, the clear definition and communication of values is essential. This role of HR management in setting and communicating values is crucial. Many flagrant infringements (of internal or external rules) by management were precisely the result of the company's value-setting for performance – i.e. maximizing profits in all circumstances and emphasizing talent in senior management, possibly setting the remuneration system according to the company's short-term results, where pressure to meet the set criteria led e.g. to creative accounting or misrepresentation of results or to corrupt behavior by traders in order to obtain a contract at any price, or to conceal relevant facts etc. (Noskova, 2020).

On the contrary, setting the company's corporate culture in such a way as to maximize the benefit of all the persons concerned (stakeholders), including the local community in which the company may operate as a whole (e.g. in the sense of the concept of corporate social responsibility) may contribute to success of the company in terms of overall performance in the long-run as well as in terms of attracting and keeping the high quality workforce. (Vydrová, 2018, Vlacseková 2017, Nosková 2020). The emphasis on compliance with high ethical standards and strict compliance or accountability to both employees and company management members in the event of breaches also contributes to building a corporate culture as a culture of compliance. In this regard, it is not inconceivable that, where a company (generally through an internal audit or forensic audit from another country within

a multinational corporation) detects infringements giving rise to criminal liability of individual employees, the company itself will proceed to criminal complaint.

Vetráková and Smerek identified three types of corporate culture that prevail in the Slovak Republic. The hierarchic culture based on authoritarian style of leadership and clear relationships between different levels of management and workers has been identified in 45,32% of enterprises with Slovak management out of all enterprises with this type of culture (Vetráková, 2015) Clan culture based on less hierarchy and more flexibility and delegation of powers has been present at 62,71% of enterprises with mixed or foreign management out of 32,63% of all enterprises with this type of culture. (Vetráková, 2015) Market culture based on competitiveness has been seen at 87,05% of enterprises with mixed or foreign management out of 19,91% enterprises with this type of culture. (Vetráková, 2015).

### **3.2. Corporate culture as a tool of soft compliance**

The concept of soft compliance is difficult to define, as many notions of soft compliance are ambiguous and specific to a particular company, sector or country. However, the relationship between soft compliance and corporate culture is clear. Soft compliance is based on a corporate culture as a culture of compliance, thus making it one of its most effective tools. Essentially, it is shaping of the corporate culture on the basis of values that directly contribute to compliance with generally binding legislation as well as internal rules, procedures and directives. Often declared values of companies include e.g. the values of integrity, transparency and accountability which, following compliance, are directly linked to e.g. a policy of zero tolerance to corrupt behaviour, transparent communication of ownership structure, definition of e.g. suppliers operating in tax havens, responsible financial reporting approach, promotion of diversity and zero tolerance to any form of discrimination etc.

Topics directly related to corporate culture as a tool of soft compliance include, for example, corporate social responsibility or sustainable corporate governance. Both themes are philosophically linked to a paradigm shift in favour of a wider range of values as opposed to the 'classic' notion of a company as an entity set up solely for the purpose of maximizing profits for shareholders. Recurring themes include protecting the environment or carrying out entrepreneurial activities in a way that is as environmentally as friendly as possible, promoting culture, sport or other socially beneficial activities, promoting people with health or social disadvantages, promoting diversity and non-discrimination, etc. (Moosmüller, 2016)

Soft compliance is based on extending the scope of compliance management to the

sphere of ethics and morality. Since ethics and morals usually go beyond the regulatory sphere, it is necessary for a company to set standards in this area in a way that corresponds to its corporate culture, values, the business activities it pursues, the sector in which it operates and the cultural and geographical context. Other ethical standards are likely to be promoted by a multinational corporation from the United States of America and other by Chinese partner in the joint-venture. However, it should be clearly recommended that ethical standards or company codes of conduct should be designed as universally as possible, in particular in line with the value of the integrity, and that stricter ethical standards should also be applied in countries with weaker regulation. Thus a uniform corporate culture based on transparent ethical values ensues.

Corporate culture thus directly impacts overall compliance of the company. If e.g. top management is involved in corrupt schemes or employees who have identified breaches of environmental law do not report them because they are concerned about potential job loss, or inappropriate behaviour towards women is tolerated, such corporate culture may have extremely negative impact on the company as it may result in criminal liability of the company or individual employees, damaged reputation, environmental damages and liability of the company connected thereto as well as risk of lawsuits or claims for compensation of damages. (Nosková, 2020, Singh 2020)

According to the results of of the study by Vetráková and Smerek, clan culture is the type of culture used by most enterprises with foreign or mixed ownership. This type of culture is also suitable for promoting soft compliance in a company as results of interviews carried out by the author of this contribution with managers of companies with this type of culture confirm.

### **3.3. Ethics in corporate culture and HR management**

Corporate culture directly mirrors ethical values of the company. The ethical values of a company are usually transposed into the so-called company code of ethics. Companies apply a number of approaches to the design and implementation of ethical standards in doing business, e.g.: an approach based on a code of conduct and key values of society; mixed approach; an approach based on addressing factual misunderstandings; the golden rule approach; a press headlines test approach (Singh, 2020). The code of conduct constitutes a basic manual that can be used if a company finds itself in a situation in which ethical dilemma needs to be addressed. At the same time, many companies train employees on possible ethical



dilemmas so that they are ready to respond to the situation in question. At the same time, employees are encouraged to take an active approach to possible ethical issues and address them to the relevant departments in the company. The mixed approach is based on the assumption that each situation requires a specific solution and the overall context of the ethical dilemma has to be addressed. The approach based on addressing factual misunderstandings perceives certain values as universal and transcending cultural context ( values such as peace, freedom, social progress, equality of rights, human dignity) while some values as fleeting (e.g. what is considered as corruption based on cultural context). The Golden Rule approach is based on reciprocity, i.e. the principle of equal mutual treatment in the field of ethics and morals. The press headlines test approach tests if a certain behavior is unethical through a lens of newspaper headlines. (Singh, 2020)

The ethical issues that may arise in the field of human resources management include ethical issues related to:

- recruitment, mergers and acquisitions, termination of employment;
- discrimination, sexual harassment, bullying;
- managing diversity in the workplace
- safety and fair working conditions;
- remuneration and performance evaluation. (Singh, 2020)

In order to sustain a corporate culture based on ethical values, it is inevitable to carry out education and training of employees to address practical ethical dilemmas and issues related to their position in the company. According to Singh, the main benefits of comprehensive education and training programmes on ethics with respect to human resources are as follows:

- a corporate culture based on a culture of ethics contributes to building a culture of trust, goodwill, integrity and compliance
- an effective ethical education and training programme represents a significant competitive advantage for society
- research results show that companies acting as ethically and socially responsible tend to attract talented employees. (Singh, 2020)

## **Conclusion**

The relationship between corporate culture, human resources, human resources management and overall compliance of the company is mutual and highly reciprocal in nature. Corporate culture directly influences human resources and is influenced by human resources

management. Corporate culture is a tool of soft compliance and directly impacts overall compliance of the company. The impact may be either positive or negative.

Due to globalization and paradigm shift, the concept of corporate culture has also undergone substantial changes. As employees are much more influenced by values and ethical standards of the company, HR managers should consider these when constructing and implementing the corporate culture. They should act as architects, builders and supervisors of corporate culture. Benefits of such approach are immense – attraction of high quality candidates, high level of engagement of employees and lower fluctuation. The opposite applies if corporate culture is viewed negatively by the employees or candidates.

In order to establish a solid, transparent and sustainable corporate culture in a positive manner, HR managers should help in clearly defining and communicating the corporate culture to employees as well as to act proactively in order to adapt the corporate culture to ever-changing business and social environment. The best strategy is to lead by example and to practice what is preached.

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