Organizational Culture and Innovation: A Conceptual Framework

Mohd Yunus Majid[1], Kamal Rizwan Mahadzir[2], Faridah Maarof[3]

1 Advisor, RMCFI Sdn Bhdt, Malaysia.
2 VP Office, Tenaga Nasional Berhad Malaysia.
3 IRP Office, Canadian University Dubai. UAE.

ABSTRACT

Organizational culture is important in a business organization because it influences the action and approaches in conducting the business effectively in highly competitive and rapidly changing environments. Moreover, innovative culture has been recognized as one of the crucial elements in achieving competitive advantage and sustainable growth. The study attempts to bridge the gap by means of a quantitative survey methodological research that explores the influence and relationship between organizational culture and innovation using the all-inclusive and practical-based framework of organizational culture, especially in the context of a Malaysian company. The scope of the study is specifically aimed at executives in one of Malaysian largest utility companies in Malaysia. The organizational culture studied in this research centered on the Denison Organizational Culture Model, which demonstrates the influence of the cultural traits of Involvement (Empowerment, Team Orientation, and Capability Development) and Adaptability (Creating Change, Customer Focus, and Organizational Learning) towards Innovation. This causal study employs quantitative methodology which gathers primary data collected from more questionnaire surveys conducted among executives using mail and electronic survey system. A number of statistical tests were conducted which are socio-demographic analysis, descriptive analysis, correlation test, and multiple regression analysis to analyze and describe the findings and to examine the research questions and hypothesis. A total of six hypotheses will be developed to find the relationship between culture and innovation in the organization. Creating change, which contributes significantly toward organizational innovation may serve as a good reference for organizations in strategy prioritization and operational execution.

1. INTRODUCTION

The current business climate is marked and heavily shaped by globalization, intense rivalry and rapidly development of technologies. Thus, changes in business organization is inevitable and prevalent, impacting organization and its employee. There are also more exposures and interactions among employees from diverse background and different skill set which would influence how the employees in the organization think, behave and respond to surrounding. In a fast-changing business progression, it is essential for business to operationalize effectively and competitively in order to sustain and thrive towards achieving its organizational vision and mission. This is the reason why organizational culture has been the focus of interest in both theory and practice and captured our attention throughout the last decade.

"Companies win or lose, depends very much on the culture they create", claimed the CEO of CompUSA, the largest retailer of personal computer (Alvesson, 2002). This statement signifies the difference between successful and less successful organization lies in in the roots of

establishing an effective organizational culture. The reason the subject of organizational culture is gaining popularity is due to the substantial relationship between the concept itself and the outcomes such as gaining competitive advantage, effectiveness, and financial performance (Tidor, et al., 2012). Every organization has its own distinctive culture. Organizational culture is consequential as it dictates its action and approaches to performing business (Denison, 1996). (Jones, 2010) described manager's knowledge about organizational design and change may assist them to analyze the structure and culture of the organization, diagnose problems and make adjustment that help the organization its goals. He also outlined the relationship among organizational theory, structure, culture, design and change in maintaining and increasing the effectiveness of the organization.

The study attempts to bridge the gap by means of a quantitative survey methodological research that explores the influence and relationship between organizational culture and innovation using all-inclusive and practical-based framework of organizational culture especially in the context of Malaysian company.

Likewise, the purpose of this study also is to investigate the influence and the relationship of organizational culture on innovation in one of the largest utility companies in Malaysia, and specifically aims to determine key success factors and effect of organizational culture on innovation. The study is grounded in preceding research linking key traits of organizational culture as major factor of increased levels of performance in organizations (Denison, 1990). Denison Organizational Culture Model will be employed as our premise in this research.

Therefore, this project focuses on the following Research Questions:
1. Does organizational culture significantly influence innovation?
2. Which dimensions of the culture (customer focus, organizational learning, empowerment, creating change, team orientation, and capability development) contribute the most in steering innovation?

In conducting assessment of innovation level, Johannessen Model is utilized, which defined the concept of innovation as newness and changes that happened in an organization.

The scope of the study is specifically aimed for executives in the service industry of Malaysia. Since Malaysia is slowly migrating from a manufacturing industry to a service industry, it would be interesting to analyze the outcome of the research – which would be later benefit the industry. [4-5] observed that by calculating arousal-valence values while listening to the Quran, the emotional state of the samples were either in a good condition which was happy and

2. LITERATURE REVIEW

2.1 Organization Culture – The Study and Definition

Organizational culture is the set of values, beliefs, and norms that influence the way employees feel, think and behave in the workplace (Schein, E., 2011). (Cameron, 1999) suggests organizational culture refers to the taken-for-granted values the underlying norms, beliefs, shared recollections, and classifications present in the organization. It represents how things revolves around the organization and it replicates the leading belief that people trust and act upon. It conveys a sense of identity and provides implicit and inherent guidelines for how to behave and function which maintain the stability of the social system.

Further, (Deshpande et al., 1993), advocate that organizational culture exposes "why things happen the way they do". Those who held the explanatory assessment of culture believe that norms, values, rituals (Schein, 1985), structure (Pettigrew A. M., 1990) and ideologies (Zammuto et al., 2000) are expressions of culture. The theoretical framework of this dissertation also incorporates Schein's key dimension of external and internal integration (Denison, 1996).

2.2 Denison Culture Model

The Denison organizational culture model recommended for this research is widely used in assessing the relationship between organizational culture and its performance. The framework advocates practical approach to understand and measure culture that support to influence variances in performance and effectiveness as proposed in (Sparrow, 2001)

Furthermore, (Denison, 1996) argued that while assumptions and beliefs accentuate behaviours that develop culture which involves many individuals, it is equally true that behaviour drives results. When one primary interest is on how organizational culture influence performance and results, Denison claimed that it is both practical and fitting to approach culture via its most obvious dimension, which is the behaviour of its people.

As depicted in Figure 2.1 below, graphically, Denison Organizational Model is grounded on four cultural traits namely Involvement, Consistency, Adaptability and Mission as have been established through Denison's earlier research. In relation to that, each of these four traits further defines three indices of managerial routine, which

are used as basis measurement for the twelve subsequent indices with a 60 items questionnaire.

The model distinguishes that cultural traits, managerial behaviours, and even organizational strategies can all be connected to a fundamental set of beliefs and norms about the organization and its environment. These core beliefs and norms lie at the core of an organization's culture. In the Denison Organizational Culture Model, these core beliefs and norms are framed in terms of four main cultural traits which would play key role and influence organizational effectiveness and its performance.

2.3 The Four Cultural Traits

The four quadrants of the model symbolize the four traits – Involvement, Consistency, Mission and Adaptability. Each quadrant comprises of three indices of managerial practice that are related to each of the traits. Two underlying dimensions embody the traits and the indices. They are external against internal focus on the vertical axis and flexibility versus stability on the horizontal axis as depicted in Figure 2.1 below.
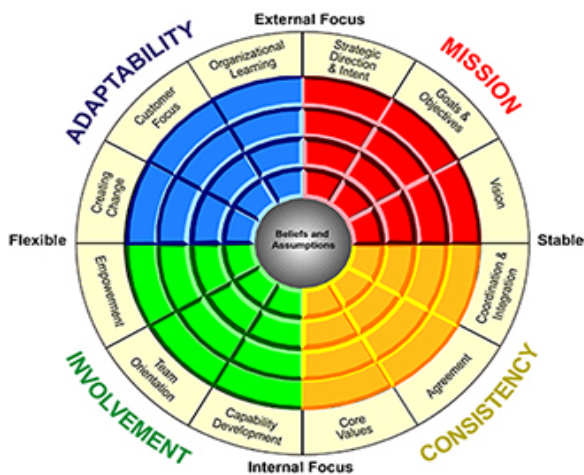

Figure 2.1: Denison Organizational Culture Model Circumplex (Source: Denison Consulting, LLC)

2.4   Characteristics of Involvement Traits

The research literature has shown that effective organizations support guided empowerment and encourage participation of their people in decision making, emphasize work processes and job designation around teams, and strive to enhance capacity development in its people at all levels of organization (Spreitzer, M., 1995). In this environment, organizational members feel stronger sense of ownership and more attached and committed to

their work. In other words, they can see that their action and performance are directly linked to the objectives of the organization. In the model, this trait is measured with three indexes:

• Empowerment. Individuals given the power and some level of freedom to execute their own task. This creates a higher sense of ownership and responsibility toward the organization.
• Team Orientation. Individuals are encourage to work and function together toward common goals and higher accountability. The organization values team effort and cohesiveness.
• Capability Development. The organization placed significant investment on training and people development. Enhancement of employee's skills is continually implemented and recognized as one of the tool of organizational competitive strategies.

2.5 Consistency Traits

The literature has also shown that effective organizations demonstrates high level of consistency and efficient integration (Safford, 1988). Value system and organizational behaviour are entrenched and manifested in a set of core values where both leaders and subordinates execute tasks and orders, resolve conflict and incorporate diverse view in a seemingly well-coordinated manner (Schein, 1992). Consistent organizations develop certainty and clear approach which supports strong internal system of governance and support. This internal system exist in the forms of policy, corporate statement, manuals, guidelines and procedure. This traits provides crucial source of both internal integration and stability. This trait is evaluated through three indexes:

• Core Values. Establishment of shared values which mark a distinct characteristic and a clear expectations.
• Agreement. Members of the organization can reach consensus on precarious matters. This involves both the core level of agreement and the skill to resolve numerous differences.
• Coordination and Integration. Units and functions of the organization can complete task together successfully to achieve common goals. Cross functional teams and task force are normal setup to achieve organizational mission.

2.6 Adaptability Traits

Adaptive organization do not afraid to take risks, learn from errors, develops capability in change implementation (Senge, 1990). Adaptive organizations able to interpret the demands of the external situation, readjust, readapt and remould its internal element into action. They are constantly refining the organization's ability to add value by developing new or modified system of norms and

beliefs that promote capacity to accept, interpret, and render signals from its external into internal systems. This would improve organization's potential for sustainable, growth and survival. Three indexes that were employed to measure the trait are shown as below:

• Creating Change. The organization could muster adaptive ways to meet external and internal demands. It has capability to sense changes, predict and response accordingly towards business environment, and anticipate future trends.
• Customer Focus. The organization placed customer needs or wants as the major driver in decision making and business strategy. They understands the importance of customer interaction and feedback in the business's sustainability.
• Organizational Learning. The organization values and learn from various medium, formal and informal. Importance are placed for encouraging innovation, knowledge improvement, and competency development.

2.7 Mission Traits

It is imperatives for organizations to have a clear mission or goal that spell the organizational goals and strategic objectives. Many develop and express this goal in the form of organization vision and mission (Hamel & Prahalad, 1994). A mission provides a clear direction and intent that exemplify organization's self-concept, its principal product or service and how to fulfil its customer's needs. Organizational members who manage to embrace and engage with its firm's mission may significantly contribute to its struggle and enhance its commitment toward the organization. Three indexes will be used to access the trait in this model namely:

• Strategic Direction and Intent. Obvious objectives to be achieved.
• Goals and Objectives. A clear set of goals can be associated to the mission, vision, and strategy. It provides clear bearing and way forward.
• Vision. Shared view of an anticipated future situation. It delivers guidance and direction while seizing the emotions and brains of the employee.

2.8 Orientation of Denison Cultural Model

The profile cuts vertically to distinguish stable or firm organization (right half) with flexible and malleable organization (left half). Involvement and Adaptability deals with capacity to change. This research focus specifically in this half of the Denison's Culture Profile to assess organizational culture's traits which are crucial and typically impact innovation and product development (Denison R., 1990). Higher score in this profile advocates

higher level of product and service innovation, creativity as well as a fast response to stakeholder's changing needs. On the contrary, Consistency and Mission represents company's capability for stability and direction.

The profile splits horizontally to differentiate between an external focus (top half) and an internal focus (bottom half). Involvement and Consistency concentrate on the internal dynamics of an organization, but do not concern the interaction of the organization with its external environment. On the other hand, Adaptability and Mission, emphasize on the connection between the organization and its external environment.

A system oriented toward Adaptability and Involvement typically exposed to more variety settings and more alternatives approach than a system oriented toward Consistency and Mission. In contrast, a bias towards Consistency and Mission is more likely to reduce the variability and place a higher weight on governance and stability.

2.9 Organizational Innovation – The Study and Definition

The term innovation have become management buzz-words over the last decade and was typically mentioned in the similar context as organizational change. Business leaders, industry captains and politicians alike have constantly urged upon organizations and industry the need to respond to competition by becoming more innovative, while management gurus have achieved reputable status by offering recipes to foster organizational innovation and how to enact such change successfully. Yet, despite the familiarity of the terms, defining them with precisions have proved futile.

The process of innovation generally starts from looking for opportunity in new invention or product prototyping that can later on be improved or enhanced – meeting customer's needs and demand. This is somewhat different from entrepreneurship, which focus only on commercialization (Schumpeter, 1934) as cited in Pol & Carroll, 2006. Meanwhile, (Drucker, 1985) famously described innovation as a committed endeavour that should be objectively managed and organized. On the other hand, (Kinicki & Williams, 2003) simply explained innovation as means and ways to provide new or better good or services.

2.10 Types of Innovation

Consumer's needs, tastes and preferences continuously evolve, not to mention advancement in technology also forces product life cycle to reduce significantly. Because of these, innovation becomes a critical component in

ensuring the sustainability of a business. Therefore, business entity and organization must be responsive to the need of continuous innovation and the nature and trend of innovation which can be applied in all field of business initiatives. Accordingly, (Kuratko & Hodgetts, 2001), mentioned that, there are four main types of innovation, namely:

• Invention: The act of creating a new product, service, or process that is totally novel or untried
• Extension: The expansion or addition to existing product lines, services, or process.
• Duplication: A process of imitating a current product, service, or process. Imitating is not as simple as one hundred percent copying, rather adding novel or extra features or increasing the versatility of the product, service or process.
• Synthesis: An approach of integrating separates segments or quantities with a new presentation or application after considering numerous ideas that previously existed.

(Leifer, 2000) explained innovation does exist at one go but it can occur in two forms: incremental innovation and radical innovation. Incremental innovation focusses on making small but significant improvements to the existing product or service. Incremental innovation improves the existing functional capability through improved cost, performance, quality and safety. On the other hand, radical innovation introduces an existing technology into an existing market, or changes the way the product or service is delivered. This form of innovation is also known as disruptive or breakthrough innovation. Radical innovation involves the departure from an existing technology or method to create new functional capabilities and major changes that may lead to the development of new industries.

(Glinow & McShane, 2015) categorized business innovation into seven broad categories. They are product innovation, service innovation, process innovation, position/supply chain innovation, paradigm innovation, organizational/business model innovation, and marketing innovation.

2.11 Johannessen Model

(Johannessen, 2001) implied innovation as newness. Inspired by the research of (Schumpeter, 1942) and (Kirzner, 1985), Johannessen established a scale that addressed six areas of innovative activity – new products, new services, new method of production, opening new market, new sources of supply and new ways of organizing. The study also embraced the concept of innovation by (Zaltman et al. 1973) and (Damanpour,

1996) by pointing innovation any idea, practice, or material artifact perceived to be new by the relevant unit of adoption and broaden the concept from just only new product to new services, structure or systems, process or programs pertaining to organizational members.

2.12 Organization Culture and Innovation

(Nystrom, 1990) in a rare study with a large Swedish chemical company, EKA Nobell, attempted to test empirically the dimension of climate and culture which are associated with innovativeness. He found that the most innovative division of the company had a climate that was high on playfulness, support for risk taking and encouragement of freedom. Its culture emphasized creativity and change above all else, including profitability and customer orientation, and there were high levels of conflicts and disharmony. These finding also suggest that allowing pro-innovation values becoming too dominant may in some instances have significant detrimental effects on an organization; priorities other than innovation for its own sake must not be neglected.

However, organization scholars and experts also acknowledged that organizational culture has an influential effect on the performance and long term effectiveness of organizations. Empirical study has formed remarkable assortments of conclusions proving the significance of culture to improving organizational performance (Denison, 1990; and Trice & Beyer, 1993).

(Kotter & Heskett. J, 1992) cross-examined seventy-five extremely regarded financial analyst whose work is to closely monitor certain sectors and firms. Each analyst compares the performance of twelve exceedingly effective firms to ten lower-performing firms. Although the study had high degree of biasness as they had concentrating almost solely on numerical metrics and hard data, results only one of the seventy-five indicated that culture had insignificant impact on firm performance. Every other firms acknowledged culture as a critical element in sustainable financial prowess.

2.13 Linking Denison Culture Model and Innovation

Many of the norms and behaviours that supports creativity are characterized within the Adaptability and Involvement traits of the Denison Model, which includes openness, participative, support diversity, receptive of changes, and collaboration.

Organization which is strong in involvement traits incline to exhibit independence and autonomous that is crucial for idea generation. Task completion depend more on team

work rather than hierarchy or stiff structure, placing value on collaboration, communication and self-accountability. This integration of employees promotes team cohesiveness, quick information sharing and internal capability building that is vital to creativity and innovation. High involvement develop feel good factor, sincerity and strong commitment to the job in hand, and therefore build entire system and environment which foster creativity (Denison, 1996).

Similarly, Adaptability is also important for creativity. Organization that are customer oriented develop multiple solutions, create diverse knowledge concepts for learning and change through collaboration and understanding of their member, clients and rivals. They encourage employees to take calculated risks and supports direct communication and contact in order to develop fast and creative responses to customer. (Denison, 1996). If leaders aspire to instill creativity in an organization, they need to build and foster a culture that is high in Adaptability and Involvement.

3. METHODOLOGY

3.1 Conceptual Framework

In this research, the dependent variable is Innovation. Dependent variable is the principal concern to the researcher. For this purpose, the researcher attempt to measure innovation level and other independent variables that may have significant influence over it. There will be six independent variables: empowerment, team orientation, capability development, creating change, customer focus and organizational learning. The six variables are the cultural dimensions based on Denison Culture model. These six cultural variables are conjectured to influence the dependent variable, innovation in either positive or negative way.

3.2 Development of Hypotheses

From the theoretical framework, hypothesis or testable statement is created to test the theorized relationship scientifically through appropriate statistical analysis. Thus, in this study, six hypotheses are generated as shown below:

H1: There is a significant relationship between empowerment and innovation

H2: There is a significant relationship between team orientation and innovation

H3: There is a significant relationship between capability development and innovation

H4: There is a significant relationship between creating change and innovation

H5: There is a significant relationship between customer focus and innovation

H6: There is a significant relationship between organizational learning and innovation

3.3 Research Design

This causal study employs quantitative methodology which gathers primary data collected from questionnaire survey conducted among executives in the largest utility company. It is designed as self- administered questionnaire, where a respondent could complete it on his/her own either on paper or via online method (computer/smart phone). Data also gathered from company reports as well as literature review from numerous sources as secondary data. Primary and secondary data are gathered and examined accordingly to achieve the aims of the research. The questionnaires will be sent through mail and email to the respective executives.

4. CONCLUSION

This paper presents a conceptual framework of organizational culture and innovation. The researcher has chosen Malaysia's largest utility company as a case study. In this study, six cultural elements – empowerment, team orientation, capability development, creating change, customer focus and organizational learning were picked to explore the relationship towards innovation. These cultural elements or dimensions were investigated based on the Denison Cultural Mode (Denison, 1996), which groups them as Involvement and Adaptability Traits respectively. Empowerment, team orientation and capability development are grouped in the Involvement traits while creating change, customer focus and organizational learning are in Adaptability traits.

As for measurement of innovation, Johannessen's model which defines innovation as "newness' was used to assess the level of innovation (Johannessen et al. 2001). 12 items measuring newness in product, services, method of production, markets, sources of supply and ways of organizing was conducted.

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