# Role of Organization Culture, Innovation on Organization Performance

*Vaishnavi G B*

*Kavyashree M B*

*Tejus Sangameshwara*
JSS Centre for Management Studies,
JSS Science and Technology University,
Mysuru
kavyashreemb@jssstuniv.in

**Abstract**

Objectives: To examine the importance of Organization Culture, Innovation on Organization Performance. To assess the relationship between Organization Culture, Innovation on Organization Performance.

Methodology: The research adopted descriptive methodology. 311 responses were gathered from employees working in IT Industries by adopting simple random sampling method. Self-administered questionnaire was prepared for the purpose of the research with five point likert scale. SPSS software was considered to analyse the data. Descriptive Statistics, KMO test for sampling adequacy, Correlation and Regression analysis, Exploratory Factor Analysis, Confirmatory Factor Analysis and Structural Equation Modelling were adopted to analyse the data and check the hypothesis.

Findings: The model fit indices examined were found to be acceptable. The model fit indices examined are: CMIN/DF= 2.316; GFI= 0.947; AGFI= 0.917; IFI= 0.957; NFI= 0.927; TLI= 0.943; CFI= 0.956; RMSEA=0.065; PNFI = 0.708; RMR = 0.023.

Application: Today's dynamic and changing business environment, requires business leader's attention towards building a conducive organization culture which enables innovativeness in business activities. Supportive Organization Culture empowers employees to think innovatively making use of their intellectual capability thus ensuring better organization performance. The research provides insights for business managers bringing awareness about the prominent factors enabling effective organization culture and innovation in workplace.

**Keywords:** *Organization Culture, Innovation, Organization Performance, Business Environment.*

## Introduction

Organization culture contributes significantly towards an organization's innovation capabilities and the overall performance. A culture promoting innovation positively enhances the capability of the organization to adapt feasibly towards the market changes, enhances the competitive advantage and promises pioneering solutions to the customers. Business organizations need to create a conducive organization culture fostering innovation, risk taking, embracing change, experimentation to achieve organization success.

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The competitive business environment essentially requires a strong organization culture as a focus of the companies to ensure positive employee performance (Iskamto, 2021); (Jufrizen, 2021). Organization Culture provides clear directions, motivates the employees and influences the decision-making process of the peer group (Adam, 2020).

## Research Questions

The study aims towards addressing the following research questions:

How important is organization culture in shaping the overall performance?

What is the role of innovation in achieving competitive success?

Is there a relation between organization culture, innovation and organization performance?

## Objectives of the Study

The objectives of the current research were:

To assess the importance of organization culture and innovation in business environments.

To examine the relationship between organization culture, innovation and Organization performance.

## Literature Review

### *Organization Culture*

Organization Culture is known to have a significant impact on various organizational process, the workforce and their performance. The corporate structure is unified with the culture of the organization (Akpa, 2021). The concept has a widespread focus among the academic researchers. Everyday organization functioning is dependent on the culture of the business enterprise.

The complex business environment has brought attention to the business managers to design effective strategies to manage their business. As a result, great emphasis to the culture of the organization is essential.

## Innovation

Innovation refers to new products and services, processes and the technologies which are accepted and implemented by the business enterprises (Sutanto, 2017). as inferred by (Mooi, 2020); (Grigoriou, 2017) firms are rapidly acquiring new ideas by investing in innovation to enhance their output an organizational performance. The performance of the organization and knowledge significantly influence the firm's innovation (Kuo-En Huang, 2016). Higher the facilities to bring in innovation the greater the companies will stay ahead of the competitors and thereby have an impact on organization performance.

## Organization Culture and Performance

The unique characteristic of human groups to have shared meanings can be reflected in the culture of the organizations. A strong organization culture drives better performance since groups which work together are more productive than the groups which work against each other (Tan, 2019).

Organization Cultures which are quite homogeneous tend to encourage team work and ensure to have a clear vision, indicate to enhance the performance of the organizations.

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## Innovation and Organization Performance

Today's organizations are operating in a complex environment, which is characterized by rapid technological changes, international expansions and competition, and the changing needs and preferences of the customers and clients (Mohammed Aboramadan, 2020). Considering these complexities, innovation is known to be a prominent factor in achieving organization success and sustained competitive advantage (Damanpour, 2001). The literature provides insights that innovative organizations respond quickly to changes, for taking better advantage of the business opportunities (Mohammed Aboramadan, 2020). The organizations performance and success is dependent on ten extent of innovation they undergo in business related activities.

## Research Methodology

The research adopted descriptive methodology. The sample of 311 responses were drawn from employees working in IT industries. Simple random sampling methodology was incorporated to gather the adequate responses. The responses were collected by circulating google forms to the employees.

## Measures

Self-Administered Questionnaire was developed for the purpose of the research. The independent variables considered in the research are: Organization Culture and Innovation; dependent variable of the research was: Organization Performance. Respondents were requested to infer their opinions on a five-point likert scale varying from 1- strongly disagree to 5 – strongly agree.

## Statistical Analysis

The data and information were processed by using statistical package for social sciences (SPSS) software. KMO test to check the adequacy of the data, correlation and regression analysis, Exploratory Factor Analysis, Confirmatory Factor Analysis and SEM were performed to analyse the data.

## Scope of the Study

The study includes employees working in IT Industries and was limited to Bangalore City.

## Conceptual Model of the Study

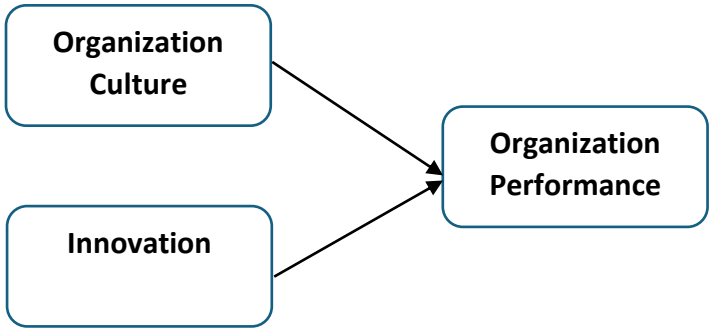


***Figure 1: Conceptual Model***

Based on the inferences drawn from extensive literature reviews and the framework of the research, the below hypothesis were formulated

Hypothesis 1: There is a positive and significant relationship between Organization Culture has a significant impact on Organization performance.

Hypothesis 2: There is a positive and significant relationship between Innovation has a significant impact on Organization Performance

**Data Analysis**

Exploratory Factor Analysis for Independent Variable
Factor Analysis is a technique used to reduce a large number of variables into fewer numbers of factors. It is used to simplify data. The technique also involves data reduction.
Kaiser-Meyer-Olkin (KMO) and Bartlett's test: Independent Variable
The KMO measures the sampling adequacy which should be greater than 0.5 as indicated by (Kaiser, 1974) for a satisfactory factor analysis to proceed.

| **KMO and Bartlett's Test** | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .878 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 1057.916 |
| | df | 45 |
| | Sig. | .000 |

***Table 1: KMO for Independent Variable***

The obtained KMO value is 0.878, which is greater than 0.5 inferring the data is adequate to perform further analysis. Therefore, the adequacy of samples for independent variable is acceptable.

| ***Total Variance Explained*** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Initial Eigenvalues** | | | **Extraction Sums of Squared Loadings** | | | **Rotation Sums of Squared Loadings** | | |
| **Component** | **Total** | **% of Variance** | **Cumulative %** | **Total** | **% of Variance** | **Cumulative %** | **Total** | **% of Variance** | **Cumulative %** |
| 1 | 4.373 | 43.735 | 43.735 | 4.373 | 43.735 | 43.735 | 2.861 | 28.610 | 28.610 |
| 2 | 1.322 | 13.224 | 56.959 | 1.322 | 13.224 | 56.959 | 2.835 | 28.349 | 56.959 |
| 3 | .783 | 7.831 | 64.790 | | | | | | |
| 4 | .690 | 6.897 | 71.687 | | | | | | |
| 5 | .573 | 5.733 | 77.420 | | | | | | |
| 6 | .545 | 5.447 | 82.868 | | | | | | |
| 7 | .520 | 5.204 | 88.072 | | | | | | |
| 8 | .448 | 4.478 | 92.550 | | | | | | |
| 9 | .393 | 3.925 | 96.475 | | | | | | |
| 10 | .353 | 3.525 | 100.000 | | | | | | |
| Extraction Method: Principal Component Analysis. | | | | | | | | | |

***Table 2: Principal Component Analysis***

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As reported by (Joseph F Hair Jr, 2010), The cumulative proportion of the overall variance is extracted in order to determine the retrieved elements' practical value. (Joseph F Hair Jr, 2010), suggests when the information is less precise in social science research, a solution accounting for the entire variation of 60% is approved, and in some circumstances, a solution accounting for the entire variance of 50% is also regarded satisfactory.

Using the above suggestions, table no. 2 shows that the overall cumulative percentage of variance retrieved was 56.959, which is deemed acceptable by the reports of (Joseph F Hair Jr, 2010).

**Rotated Component Matrix**

| Rotated Component Matrix[a] | | |
|---|---|---|
| | Component | |
| | 1 | 2 |
| OIN5 | .829 | |
| OIN7 | .716 | |
| OIN6 | .695 | |
| OIN9 | .688 | |
| OIN4 | .665 | |
| OC4 | | .775 |
| OC3 | | .746 |
| OC6 | | .706 |
| OC1 | | .689 |
| OC2 | | .661 |
| Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.[a] | | |
| a. Rotation converged in 3 iterations. | | |

***Table 3: Rotated Component Matrix***

To explore the factor structure EFA was performed. The exploration amounted to 10 items which have factor loadings higher than 0.661 and above. The analysis resulted in two factors influencing organizational performance: Innovation (OIN) and Organization Culture (OC). The table no. 3 indicates the item loadings for the factors extracted.

**Exploratory Factor Analysis**

***Kaiser-Meyer-Olkin (KMO) and Bartlett's test: Dependent Variable***

The KMO measures the sampling adequacy which should be greater than 0.5 as indicated by (Kaiser, 1974) for a satisfactory factor analysis to proceed.

| KMO and Bartlett's Test | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .898 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 1142.964 |
| | df | 28 |
| | Sig. | .000 |

***Table 4: KMO for Dependent Variable***

The obtained KMO value is 0.898, which is greater than 0.5 inferring the data is adequate to perform further analysis. Therefore, the adequacy of samples for independent variable is acceptable.

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| *Total Variance Explained* | | | | | | |
|---|---|---|---|---|---|---|
| | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
| Component | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 4.492 | 56.150 | 56.150 | 4.492 | 56.150 | 56.150 |
| 2 | .891 | 11.133 | 67.282 | | | |
| 3 | .536 | 6.697 | 73.979 | | | |
| 4 | .520 | 6.496 | 80.475 | | | |
| 5 | .478 | 5.969 | 86.445 | | | |
| 6 | .444 | 5.549 | 91.994 | | | |
| 7 | .350 | 4.370 | 96.363 | | | |
| 8 | .291 | 3.637 | 100.000 | | | |
| Extraction Method: Principal Component Analysis. | | | | | | |

***Table 5: Principal Component Analysis***

As reported by (Joseph F Hair Jr, 2010), The cumulative proportion of the overall variance is extracted in order to determine the retrieved elements' practical value. (Joseph F Hair Jr, 2010), suggests when the information is less precise in social science research, a solution accounting for the entire variation of 60% is approved, and in some circumstances, a solution accounting for the entire variance of 50% is also regarded satisfactory.

Using the above suggestions, table no. 5 shows that the overall cumulative percentage of variance retrieved was 56.150, which is deemed acceptable by the reports of (Joseph F Hair Jr, 2010).

**Association between the Independent and Dependent Factors**

For assessing the structural relationships between the identified factors and Customer Engagement, SEM was adopted. The model fit indices were found to be acceptable.

The model fit indices are indicated in the below table no. 6:

| Sl No | Model fit Indices Tested | Model Fit Indices Values Obtained | Inferences |
|---|---|---|---|
| 1 | CMIN/DF | 2.316 | Supported since CMIN/DF Value should be less than 3; RMSEA Value should be less than 0.08 (Hair Junior, 1998), PNFI should be >0.50, GFI;AGFI;TLI;CFI should be > 0.9, RMR should be <0.05 |
| 2 | GFI | 0.947 | |
| 3 | AGFI | 0.917 | |
| 4 | TLI | 0.943 | |
| 5 | CFI | 0.956 | |
| 6 | RMSEA | 0.065 | |
| 7 | PNFI | 0.708 | |
| 8 | RMR | 0.023 | |

***Table 6: Model Fit Summary***

Below figure no. 2 represents the SEM model.

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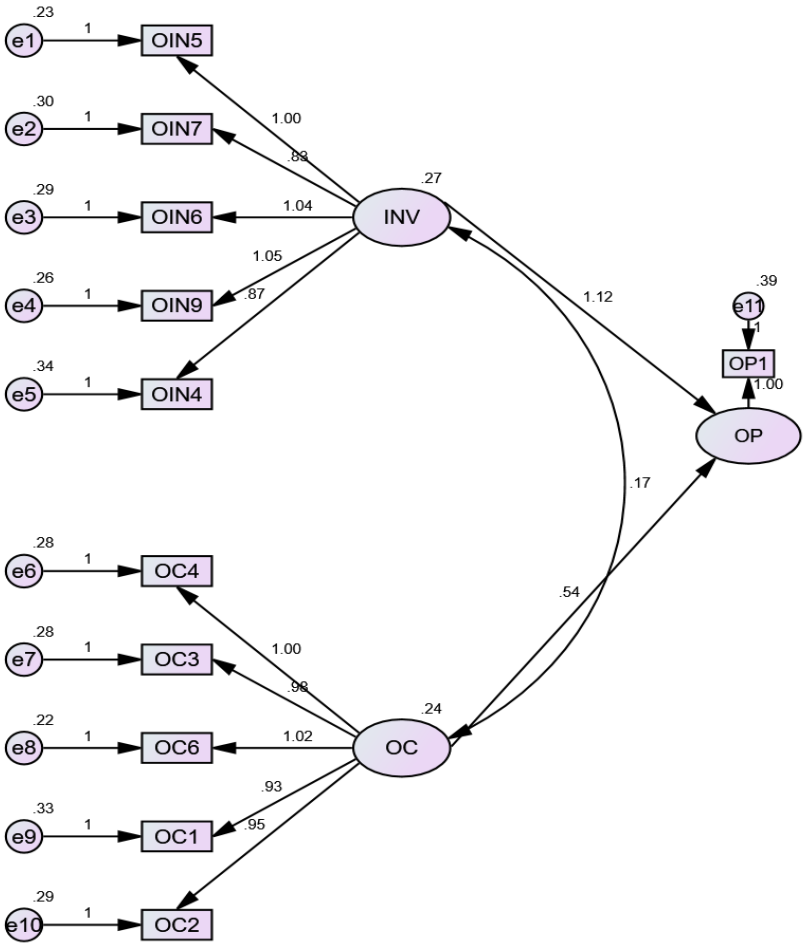


***Figure 2: Structural Equation Model***

**Findings of the Study**

The study results provide insights that Organization Culture, Innovation have a positive impact on Organization Performance. The test statistics and model fit indices infer, the hypothesis of the present work

Hypothesis 1: There is a positive and significant relationship between Organization Culture has a significant impact on Organization performance.

Hypothesis 2: There is a positive and significant relationship between Innovation has a significant impact on Organization Performance; are found to be acceptable.

## Conclusions

The research work infers the role of business leaders in creating an organization culture associated with a set of norms and beliefs and to focus attention on significant innovations that contribute to the overall success and performance of the organization. A culture with appropriate values foster a learning environment thus contributing to enhanced innovations in the work process which are essential indicators of organization performance.

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## Limitations and Future Directions

Data was gathered only 311 respondents working in IT industries. Therefore, the study cannot be generalized to other business sectors. Further research initiatives can assess other significant factors having an impact on organization performance.

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