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Role of Organization Culture and Innovation in Organization Performance#

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Abstract

The present research examines the importance of organisational culture and innovation on organization performance. To assess the relationship between organisational culture and innovation on organisational performance. The research adopted a descriptive methodology. 311 responses were gathered from employees working in IT Industries by adopting a simple random sampling method. A self-administered questionnaire was prepared for the research with five five-point Likert scale. SPSS software was used 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. The model fit indices examined were found to be acceptable. Today's dynamic and changing business environment requires business leaders' attention towards building a conducive organisational 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 the workplace.

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

1. Introduction

The rapidly evolving competitive business environment fosters organizations to continuously seek ways to enhance their competitive performance and sustain growth. The prominent factor influencing organisational success is the reciprocation between organizational culture and innovation (Amoa-Gyarteng & Dhliwayo, 2024). Organizational culture encompasses the shared values, beliefs and norms of an organization, which redirect the way employees communicate and collaborate. Similarly, innovation, the process of ideating new products and processes, is recognized as a critical driver for organisational success (Moreira, 2024).

The association between organisational culture and innovation has gained significant momentum in recent years among academic practitioners and scholars as they strive to understand how these factors interact to influence the overall organizational performance (Zhang *et al.*, 2023; Tripathi & Kalia, 2024). A positive organization culture fosters an environment of creativity, motivation and innovation among the workforce, enabling them to embrace risks with positivity.

Information technology industries are experiencing emerging changes in technology and innovation that are having a major impact on organisational culture and overall organization performance (Chaudhuri *et al.*, 2024). Thus, it becomes imperative to understand the role played significantly by organization culture and innovation towards organization performance.

The current research explores the role of organisational culture and innovation in shaping organizational performance. Examining the cultural dimensions

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influencing innovative behaviours and, in turn, accessing the role of innovation towards organizational outcomes such as productivity, profitability, and sustainability, the current study provides valuable insights to organizations on how these elements can be incorporated to achieve long-term success. Through an extensive review of the research works, the present study will investigate the possible ways through which organization culture facilitates innovation and a broader understanding of how organization culture and innovation impact organization performance.

The study aims towards addressing the following research questions:

(i) How important is organization culture in shaping the overall performance?
(ii) What is the role of innovation in achieving competitive success?
(iii) Is there a relation between organization culture, innovation and organization performance?

Considering the insights gathered, the present research examines the role of organization culture and innovation in Organization performance.

2. Literature Review

Organizational culture plays a significant role in shaping the workforce dynamics, the processes within the organization and the overall performance. The culture of a business is connected with the corporate structure, as it influences how an organization operates and functions on a day-to-day basis (Akpa *et al.*, 2021). The concept has gained attention among academic researchers, who critically emphasize the role of culture in guiding the decision-making and operations of a business. Considering the complex business environment, managers are focusing on the significance of fostering an organisational culture, which is a predominant factor in formulating the strategies of a business (Pedraza-Rodríguez *et al.*, 2023).

Innovation, involving the development and implementation of new products, services and technologies at organizations has become a vital element for their success. Organizations continuously invest in innovation to boost their performance and productivity (Sutanto, 2017; Mooi, 2020; Grigoriou & Rothaemel, 2017). The ability of the firms to innovate influences their operational outcomes, whereas a firm's knowledge on innovation is prominent to maintain their competitive edge (Huang *et al.*, 2016). Today's fast-paced competitive business environment has made it imperative for organizations to innovate, to stay ahead of their competitors and to have a positive impact on overall organization performance.

The relationship between organizational culture and performance is represented through the shared beliefs and values that members within an organization adhere to. A strong organization culture is associated with better performance, since teams that work together are more productive (Tan, 2019). A homogeneous culture promotes collaboration and alignment to a common vision, which impacts improved organizational outcomes. A clear organisational culture fosters teamwork and a conducive environment to achieve performance goals (Radu, 2023).

The rapidly changing business landscape has made organizations respond to technological advancements and global expansion and focus on customer preferences (Aboramadan *et al.*, 2020). In this context, innovation is a critical element of organisational success, enabling the organizations to respond quickly to market changes and emerging opportunities (Damanpour & Gopalakrishnan, 2001). The organizations which are innovative respond to external threats and maintain a competitive advantage. The degree to which the organization embraces innovation has a direct impact on its performance and long-term success, making it a prominent factor in business achievement (Robertson *et al.*, 2023).

Furthermore, the association between organization culture, innovation and performance is essential to understand how organizations thrive in a competitive environment. An organization with a strong organisational culture fosters collaboration, enhancing the ability to innovate, while innovation drives better performance and organisational success. Organizational culture, innovation

and performance together create a premise for sustainable growth of the organization in complex business situations (Pedraza-Rodríguez *et al.*, 2023).

While the literature emphasizes the significant impact of organisational culture on performance, there is a gap in understanding the way in which organisational culture affects innovation and performance across different industrial sectors and regions (Zhang *et al.*, 2023). The relationship between organization culture and innovation is explored, but the specific aspects of culture like communication, trust, and leadership, which impact the innovation process, require further exploration by the researchers (Egide, 2024). Understanding the role of culture in fostering innovation in organizations will provide more practical insights for the business level managers.

Exploring the relationship between culture, innovation, and organization performance is emphasized in academic works, but there are limited works on how innovation is directly linked to business outcomes (Bhatiasevi, 2024).

Addressing these research gaps will contribute to a more profound understanding of the association between organization culture, innovation and performance and also provide practical insights to business level managers and the scholars.

3. Research Methodology

The research adopted a descriptive methodology. The sample of 311 responses was drawn from employees working in IT industries. Information technology companies are currently undergoing significant changes in terms of innovation, which impacts the culture and the organization's performance. Considering these insights, respondents were chosen from IT organizations. To have feasibility in the data collection process, a simple random sampling methodology was incorporated to gather the adequate responses. The responses were collected by circulating Google forms to the employees.

A Self-Administered Questionnaire was developed for the research. The independent variables considered in the research are: Organization Culture and Innovation; the 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.

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 access the relationship between organization culture, innovation and performance. The study includes employees working in IT Industries and was limited to Bangalore City.

3.1 Conceptual Model of the Study

Based on the inferences drawn from extensive literature reviews and the framework of the research in Figure 1, the below hypotheses were formulated.

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

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

4. Results and Discussions

4.1 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.

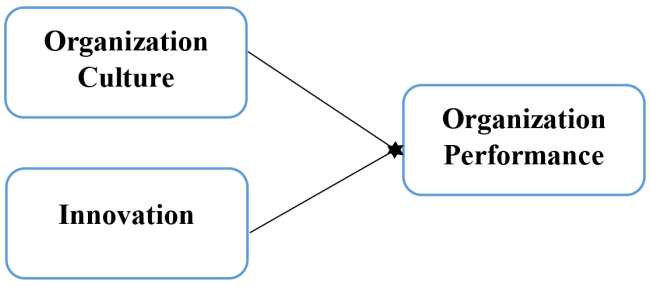


Figure 1. Conceptual model.

The KMO measures the sampling adequacy, which should be greater than 0.5, as indicated by Kaiser and Rice (1974), for a satisfactory factor analysis to proceed. Table 1 represents the KMO Statistics.

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 the independent variable is acceptable.

As reported by Hair *et al.* (2010), the cumulative proportion of the overall variance is extracted to determine the retrieved elements' practical value. Hair *et al.* (2010) suggests that 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 said suggestions, Table 2 shows that the overall cumulative percentage of variance retrieved was 56.959, which is deemed acceptable by the reports of Hair *et al.* (2010).

Table 1. KMO for Independent Variable

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.878
Bartlett's Test of Sphericity	Approx. Chi-Square	1057.92
	df	45
	Sig.	0

To explore the factor structure EFA was performed. The test results are represented in Table 3. 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). Table 3 indicates the item loadings for the factors extracted.

4.2 Exploratory Factor Analysis for Dependent Variable

The KMO measures the sampling adequacy, which should be greater than 0.5, as indicated by Kaiser and Rice (1974), for a satisfactory factor analysis to proceed. Table 4 represents the KMO Statistics.

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 the independent variable is acceptable.

As reported by Hair *et al.* (2010), the cumulative proportion of the overall variance is extracted in order to determine the retrieved elements' practical value. Hair *et al.* (2010) suggests that 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.

Table 2. Principal component analysis

Total variance explained									
Component	Initial eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
	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	28.61	28.61
2	1.322	13.224	56.959	1.322	13.224	56.959	2.835	28.349	56.959
3	0.783	7.831	64.79						
4	0.69	6.897	71.687						
5	0.573	5.733	77.42						
6	0.545	5.447	82.868						
7	0.52	5.204	88.072						
8	0.448	4.478	92.55						
9	0.393	3.925	96.475						
10	0.353	3.525	100						
Extraction method: Principal component analysis									

Table 3. Rotated component matrix

Rotated component matrixa		
	Component	
	1	2
OIN5	0.829	
OIN7	0.716	
OIN6	0.695	
OIN9	0.688	
OIN4	0.665	
OC4		0.775
OC3		0.746
OC6		0.706
OC1		0.689
OC2		0.661
Extraction Method: Principal Component Analysis		
Rotation Method: Varimax with Kaiser Normalization[a]		
[a] Rotation converged in 3 iterations		

Table 4. KMO for dependent variable

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin measure of sampling adequacy		0.898
Bartlett's test of sphericity	Approx. Chi-Square	1142.96
	df	28
	Sig.	0

Table 5. Principal Component Analysis

Total variance explained						
Com ponent	Initial eigenvalues			Extraction sums of squared loadings		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	4.492	56.15	56.15	4.492	56.15	56.15
2	0.891	11.133	67.282			
3	0.536	6.697	73.979			
4	0.52	6.496	80.475			
5	0.478	5.969	86.445			
6	0.444	5.549	91.994			
7	0.35	4.37	96.363			
8	0.291	3.637	100			
Extraction method: Principal component analysis						

Using the said suggestions, Table 5 shows that the overall cumulative percentage of variance retrieved was 56.150, which is deemed acceptable by the reports of Hair *et al.* (2010).

Table 6. Model fit summary

S. 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, 1998), PNFI should be >0.50, GFI; AGFI; TLI; CFI should be >0.9, RMR should be <0.05 (Kavyashree *et al.*, 2022).
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	

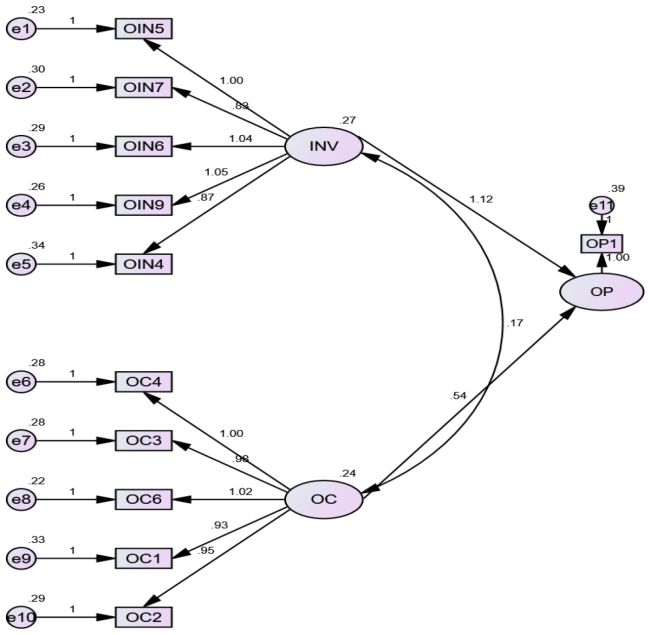


Figure 2. Structural equation model.

4.3 Association between Organization Culture, Innovation and Organization Performance

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 Table 6.

The structural relationships represented indicate there is a positive association between organization culture, innovation and performance.

5. Conclusion

The findings of the present research offer valuable insights into the significant influence of organization culture and innovation in organization performance. The test statistic results and the model fit indices infer the proposed hypothesis of the study are statistically supported which are proven by Hair *et al.* (2010) and Kavyashree *et al*. (2022). More specifically, the research work emphasizes the role of business leaders in curating an organisational culture with specific norms and values, as well as fostering innovation, which has an impact on the overall performance of the organization and its success (Mingaleva *et al.*, 2022). A strong culture nurtures a learning environment which drives innovation among the workforce, thus leading to enhanced organizational performance (Khan *et al.*, 2021). The results are consistent with the research findings of Tripathi & Kalia (2024), Ranjan Chaudhuri *et al.* (2024) and Akpa (2021).

The study results cannot be generalized to all business sectors as the responses were specifically collected from IT Industries for the research. Future academic works in the area can focus on other variables influencing organization performance. Further, research works can also incorporate employee related factors that promote organization performance. Examining the association between contextual factors like leadership style and external market conditions that moderate the relationship between organization culture, innovation, and performance can also be examined.

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