

## **Chapter 1 - Introduction**

### **Purpose and Significance of the Study**

Every company has its own unique culture. A company's organizational culture is important because it influences the organization's actions and approaches to conducting business (Denison, 1995). It is very crucial for business to function effectively in a highly competitive, rapidly changing environment. It is recognised that innovation is of utmost importance in maintaining a proactive and entrepreneurial organization (Johannessen et al, 2001). Innovation has become widely recognized as a key to competitive success (Francis & Bessant, 2005).

A review of the literature on organizational culture demonstrates that it is a complex phenomenon that researchers continuously struggle to understand. There is still debate over how to define organizational culture, whether organizational culture should be assessed only with qualitative methods, and the extent to which culture impacts organizational performance especially with non financial measures of performance, such as innovation.

Studies have acknowledged the existence of a relationship between organizational culture and organizational innovation (Kotter and Heskett, 1998); and have proposed theories about its nature, and recommend that innovative organizations perform better (Hurley and Hult, 1998).

Since organizational innovation implies organizational change (King and Anderson, 1995) the ability of an organization to adopt innovations is likely related to its structure, processes and values. According to Rousseau (1990) and Pettigrew (1990), an organization's structure, processes and values are

manifestations of organizational culture and thus provide insight into the content of an organization's culture.

In McKinsey Global Survey (October, 2007), executives firmly believe that innovation is central to a company's strategy and performance, but getting it right is as hard as ever. Some 70 percent of corporate leaders say innovation is among their top three priorities for driving growth. But the way companies manage and govern innovation does not reflect that importance. Most companies do not focus on innovations they say will have the greatest effect on performance. There are also disparities in executives' perceptions of how their companies react to failure in innovation. The group agrees organizational cultural would improve the innovation performance of their companies.

From the literature, researchers understand very little about the organizational-level characteristics related to innovation. Ashley and Bryan (2009) presented their findings in 11<sup>th</sup> Annual Best of Organizational Summit on the topic of: Organizational Culture and Innovation: Exploring the Link. It was found organization's with strong cultures ranked higher in new product development and expected to grow more in the future, based on growth assumptions in their stock prices. A balanced culture can help an organization be innovative. It was also found that traits of involvement and adaptability are important to execution and implementation resulting in innovation (Denison, 1990; Denison & Mishra, 1995; Gordon & DiTomaso, 1992; Kotter & Heskett, 1992; Sorenson, 2002).

## **Objectives of the Study**

This study attempts to fill the gap through a qualitative research that examines the relationship between organizational culture and innovation using a comprehensive practice-based framework of organizational culture.

In this study, we investigate the relationship between organizational culture and innovation; specifically it aims to determine the impact of organizational culture on its innovation. This study is rooted in research that has already established key traits of organizational culture as major drivers of increased levels of performance in organizations (Denison, 1990). The organizational culture will be examined by referring to Denison Organizational Culture Model.

Identifying and applying aspects of culture that might positively improve organizational innovation is relevant towards developing a better understanding of organizational culture in all sectors.

## **Research Questions**

Two research questions to this study are:

First, does organizational culture influence the depth of innovation in Malaysian organizations?

Second, which dimension of the organizational culture – empowerment, team orientation, capability development, creating change, customer focus and organizational learning, is most influential in driving innovation for an organization?

## **Scope of the Study**

The scope of this study is opened to all sectors (government sector and private sector) in Malaysia. As such, the generalizability of this study's results may be limited beyond similar populations of employees in Malaysia.

This study used 30 items to calculate the organizational culture and 12 items for innovation. The variables in this study consisted of 12 independent variables (empowerment, team orientation, capability development, creating change, customer focus, and organizational learning) and one dependent variable (innovation).

## **Organization of the Study**

Five chapters were developed and depicted for this research study. Chapter 1 provided an overview of the study. It comprised objectives of the study, the purpose and significance of the study, objectives of the study, research questions, and scope of the study as well as the organization of the study.

Chapter 2 of the study provided a detailed literature review about organizational culture and innovation. In this chapter, a critical analysis of theoretical literature and measures of six cultural variables (empowerment, team orientation, capability development, creating change, customer focus, organizational learning) was presenting. Through reviewing literature, the hypothesized model and hypotheses in this study were derived from the literature gaps.

Chapter 3 exhibited the research methodology to test the research questions and hypotheses. It consisted of development of the hypotheses, the

research design, the target population, sampling, instruments, procedure of data collection, ethical considerations and data analysis techniques.

Chapter 4 describes not only the summary statistics, analyses of measures and testing of hypotheses but also the summary of research results.

Chapter 5 finally, presented the conclusions, interpretations, and implications of the findings. In addition, the chapter provided limitations of the study and suggestions for future research.