



# Organizational culture, innovation, and performance: A test of Schein's model



Suellen J. Hogan <sup>\*</sup>, Leonard V. Coote

The University of Queensland, Brisbane, Queensland 4072, Australia

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## ABSTRACT

Innovation is the key to organizational survival and therefore the study of processes that support innovation should be of interest to researchers and practitioners alike. Schein's multi-layered model of organizational culture offers a useful framework for thinking about processes that foster innovation. A defining characteristic of the model is the subtle but important distinctions between the varied "layers" of organizational culture (i.e., values and norms, artifacts and behaviors). The basic assumption of this study is that Schein's model offers a tractable explanation of cultural processes that support organizational innovation, especially in service firms. Despite the intuitive appeal and practical value of Schein's conceptual framework, empirical research in relation to the model is limited. This paper develops a rationale for an empirical model based on Schein's conceptual model; the study reports a test of an empirical model. Data collected from approximately 100 principals of law firms provides a suitable empirical context for a test of the model. The findings generally support the hypothesized relationships. A key result is how layers of organizational culture, particularly norms, artifacts, and innovative behaviors, partially mediate the effects of values that support innovation on measures of firm performance. The findings have implications for theory and practice, especially in relation to building an organizational culture within professional service firms that fosters innovative behavior.

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## 1. Introduction

Following the worst global economic crisis experienced in fifty years, a report from the Organisation for Economic Co-operation and Development (OECD, 2010) highlights the potential of innovation for long-term economic growth. Innovation is a key driver of economic development and plays a crucial role in competition at both the national and firm levels (Cefis & Marsili, 2006; Tellis, Prabhu, & Chandy, 2009). Given the complex and dynamic conditions in which organizations compete today, the need for organizations to innovate continually has never been greater (Gumusluoglu & Ilsev, 2009; Tellis et al., 2009). Prior literature proposes a positive link between innovation and a range of desired performance outcomes (e.g., Garcia-Morales, Matías-Reche, & Verdu-Jover, 2011; Han, Kim, & Srivastava, 1998).

Consequently, empirical interest continues to increase understanding of paths to innovation. Not surprisingly, much of this research has focused on manufacturing firms. Few studies document processes that support innovation in service firms that deliver high "value added" services, by comparison. Organizational culture as the key to fostering processes that support innovation is one speculation (Khazanchi, Lewis,

& Boyer, 2007; Tellis et al., 2009); this perspective may be relevant especially in the context of professional service firms.

The concept of organizational culture originates in cultural anthropology and is popular within the organizational behavior, management, and marketing literatures (e.g., Gregory, Harris, Armenakis, & Shook, 2009; Homburg & Pflesser, 2000; Schein, 1992). Organizational culture refers to the values and beliefs that provide norms of expected behaviors that employees might follow (Schein, 1992). Schein (1992) considers organizational culture as a social force that is largely invisible yet very powerful. Empirical evidence suggests that organizational culture significantly influences market-oriented behaviors, and market and financial performance (Homburg & Pflesser, 2000), employee attitudes and organizational effectiveness (Gregory et al., 2009), and has a greater contribution to knowledge management and organizational effectiveness than organizational strategy and structure (Zheng, Yang, & McLean, 2010). An organization's culture strongly influences employees' behaviors beyond formal control systems, procedures, and authority (O'Reilly, Chatman, & Caldwell, 1991). As such, organizational culture is a powerful means to elicit desired organizational outcomes.

Nonetheless, despite much focused attention on the topic of organizational culture, extant literature does not sufficiently document the characteristics of an organizational culture that supports innovation. Importantly, prior research does not sufficiently document the explicit process by which organizational values (i.e., the foundational building blocks of culture) translate into observable desired behaviors. Moreover, advancing the literature requires a finer-grained view and clearer

<sup>\*</sup> Corresponding author at: UQ Business School, University of Queensland, Brisbane, Queensland 4072, Australia. Tel.: +61 7 3346 8092; fax: +61 7 3346 8166.

E-mail addresses: s.hogan@business.uq.edu.au (S.J. Hogan), l.coote@business.uq.edu.au (L.V. Coote).

explanation of the specific layers of an organizational culture supporting innovation. “That organizational culture influences firm effectiveness is an assumption implicitly held by many managers and management researchers, although few empirical studies have provided detailed insight into the relationship” (Gregory et al., 2009, p. 683). This research begins to address this important gap.

A central aim of this paper is to contribute to existing literature by providing a clearer understanding of the links between the distinct layers of an organization's culture and innovative behaviors. The motivation for this paper is to provide a more complete account of the key cultural characteristics and processes that lead to innovative behaviors within a knowledge-based context. This study contributes to understanding these key issues in several ways. First, this study presents and empirically tests Schein's (1992) multi-layered organizational culture model. In contrast to most previous studies that conceptualize organizational culture as a unidimensional construct, we build on and extend Homburg and Pflesser's (2000) work. We argue that distinguishing between the subtle but distinct cultural dimensions underpinning behaviors provides a finer-grained picture and better understanding of the interrelationships between the specific layers of organizational culture that drive desired behaviors. As such, our study provides a means to assess and therefore manage specific elements of an organization's culture. Second, this study contributes to establishing the value creating outcomes of these complex constructs. In doing so, our study addresses important and timely issues that are fundamental to organizational effectiveness. This study therefore establishes some very clear guidelines for managers seeking to build a culture of innovation, within professional service firms in particular.

## 2. Theoretical framework

### 2.1. Schein's model of organizational culture

Many definitions of organizational culture exist, however, organizational culture generally refers to the organizational values communicated through norms, artifacts, and observed in behavioral patterns (Homburg & Pflesser, 2000; Schein, 1992). The intrinsic worth of values is to act as social principles or philosophies that guide behaviors and set a broad framework for organizational routines and practices (Hatch, 1993; O'Reilly et al., 1991). For example, values communicated by senior management assist the innovation process by embedding expected

behaviors within an organization's culture. Values therefore provide a subtle mechanism through which senior management can exercise influence (Mumford, Scott, Gaddis, & Strange, 2002). By emphasizing certain values and by building corresponding norms for expected behaviors, managers can begin to build an organizational culture that has a powerful and compelling influence on employee behavior (Mumford et al., 2002; Tellis et al., 2009). Values and norms can in turn manifest in artifacts (e.g., organizational rituals, language and stories, and physical configurations) and lead to desired behaviors such as innovation.

While most prior research considers organizational culture as a single construct, Schein (1992) considers the importance of analyzing and distinguishing between several layers of culture (see Fig. 1). Further, Schein (1992) attributes the confusion in definitions of culture to failure in differentiating the levels at which organizational culture manifests correctly. As Fig. 1 illustrates, values underlie norms and artifacts and determine observed patterns of behavior. Norms are expectations of acceptable behaviors held by members of an organization and have the force of social obligation or pressure (O'Reilly et al., 1991; Schein, 1992). For instance, innovative behaviors can result from norms that support information exchange about new ways of doing things within an organization (Amabile, 1988; Moorman & Miner, 1997). Organizational norms derive from values and are manifest in artifacts. Whereas values are the least visible, artifacts represent the most visible layer of organizational culture and are manifestly evident in organizational symbols, rituals, language, and physical workspace arrangements (Schein, 1992).

### 2.2. Organizational innovation

Innovation theory has developed within manufacturing and high-technology industries, and the innovation construct is generally conceptualized as a discrete process or dichotomous variable. That is, innovation is often considered as either radical or incremental (e.g., Subramaniam & Youndt, 2005), technical or administrative (e.g., Han et al., 1998), or product or process (e.g., Chen, 2009). Within manufacturing industries, innovative outputs are tangible, such as new products, produced using technological process innovations, and stored for later use. The development of new machinery and equipment is central to the innovative activities of firms within these industries.

However, this conceptualization is not always appropriate within service contexts because services are perishable and intangible, and the close interaction between the producer and the customer in the

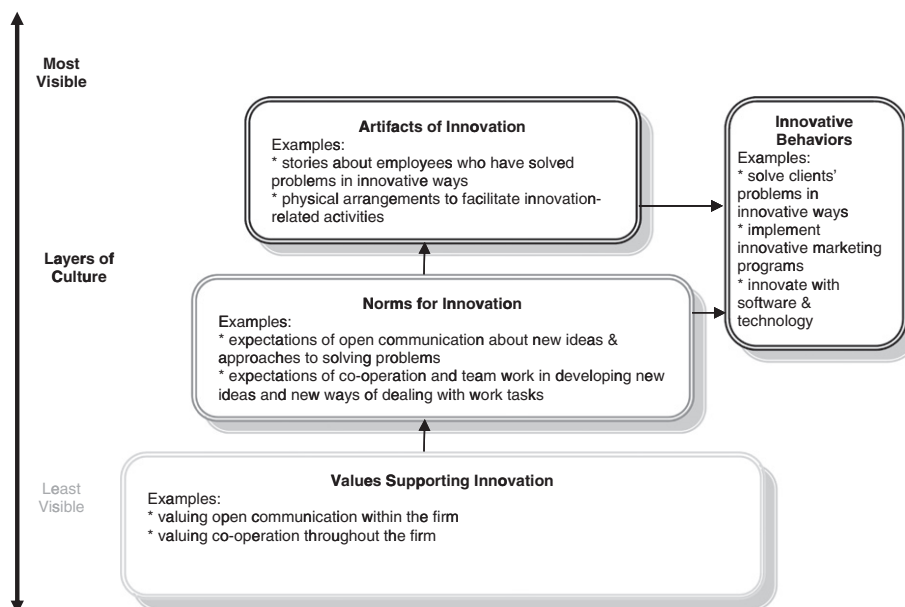


Fig. 1. Layers of an organizational culture that supports innovation.

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