

**ICIMTR 2013**

International Conference on Innovation, Management and Technology Research,  
Malaysia, 22 – 23 September, 2013

**The Relationship between Organizational Culture and  
Product Innovativeness**

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**Abstract**

SMEs are a key source of innovation in many developed and developing countries including Malaysia. However, innovation activities among SMEs in Malaysia are still not encouraging. Recent studies indicated a range of structural, external and internal determinants of innovation among SMEs. Among these determinants, organizational culture is claimed to have a more significant influence. However, there are only a few studies examining the relationship between organizational culture and product innovation among SMEs in Malaysia. This study is aimed to bridge the gap by examining the relationship between organizational culture and product innovation among SMEs in the Southern Region of Malaysia. Thirty-six small businesses participated in this research by responding to an established instrument of Denison's Organizational Culture Survey (OCS) and self-developed product innovativeness items. The results showed that three out of four dimensions of organizational culture (Mission, Consistency, Involvement) have significant relationship with product innovativeness. This finding substantiates the importance of establishing competitive organizational culture among SMEs by focusing on these dimensions. Thus, leadership development programmes for entrepreneurs need to incorporate culture building competencies to ensure SMEs sustainability.

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Selection and peer-review under responsibility of Universiti Malaysia Kelantan

Keywords: Women Organizational Culture; Product Innovation; SMEs

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## 1. Introduction

The importance of innovation at various levels (national, industrial, organizational and individual) has been firmly established. Organizations which fail to innovate are at risk losing their competitiveness and sustainability (Tidd *et al.*, 2001). In Malaysia, level of innovation among SMEs is still not encouraging Lee & Lee (2007), in his analyses of two cycles of National Survey of Innovation (NSI) carried out by the Ministry of Science, Technology and Innovation, Malaysia (MOSTI), found that majority of small and mediums enterprises are non-innovating firms. In the NSI-1 (covering the period 1990-1994), 88.8% from 233 small enterprises and 81.2% from 526 of medium-sized enterprises are non-innovating. In the NSI-2 (covering 1997-1999), the percentage of non-innovating small enterprises remain high at 74.1% from 482 small enterprises and 48.9% from 141 medium-sized enterprises. Similarly, a study among public listed housing developers by Yusof and Abu-Jarad (2011) also found that innovativeness among them is low.

These statistics indicate a grave need to identify what make innovative SMEs especially when it continues to be the driving force of Malaysian economic growth. Innovative SMEs are more flexible, adaptable and responsive to market changes. Such capabilities would render them higher competitive advantages compared to their larger counterparts. Since the significant link between innovation and organizational performance has been substantiated in various studies (Ilker Murad, 2012; Bowen *et al.*, 2010), more researchers and practitioners continues to dwell on factors affecting company to innovate. Present studies have investigated plethora of determinants ranging from firm-specific characteristics (Tidd *et al.*, 2001) to the effects of external environment (Damanpour, 1992). Others highlight the significant role of internal process such as organizational culture in influencing innovation (Valencia *et al.*, 2012). McMillan, in particular, (2010) claimed that “constant innovation stems from an organizational culture where experimentation, playfulness, and a sense of achievement are constantly rewarded”.

Studies on innovation among SMEs in Malaysia are still limited. There appears to number of studies on cultivation of organizational innovation among Malaysian ICT-based small firms; and different types of innovativeness among Malaysian SMEs ( Hilmi *et al.*, 2010a; 2010b). Keyword literature scan using Emerald and Science Direct revealed a very small number of studies on organizational culture and innovation and none in the context of SMEs. Thus, this paper aimed to fill in the empirical gap by examining the relationship between organizational culture and product innovation among SMEs.

The outline of this paper is as follows. Section 2 presents literatures on organizational culture and innovation which eventually lead to the formulation of research hypotheses. Section 3 presents the methodology while Section 4 reports the results. Section 5 continues with conclusion and discussions.

## 2. Literature Review

### 2.1. Innovation

Innovation has diverse definitions from various schools of thoughts. OECD (2005) defines innovation as “transforming an idea to a marketable product or service, new or improved manufacturing/distribution method or new social service method” or commonly referred to as technical innovations. It is a widely accepted definition of organizational innovation and largely used in most innovation studies. This technical definition of innovation, however, delineate behavioral or employee innovativeness. Wang and Ahmed (2004), on the other hand, claimed that there are facets of innovativeness which include product, process, marketing, strategic and behavioral innovation. These diverse definitions of innovation indicate varied theoretical framework underpinning the concept (Lam, 2004). According to Lam (2004), there are three major approaches in studying innovation.

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