Prospectus

The Connection between Organizational Culture and Company Financial Performance in Innovation Driven Markets

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Problem Statement

The goal of this study is to determine if type of industry moderates the relationship between organizational culture and company performance. Organizational culture is a basic set of assumptions adapted by a group to deal with “external adaptation and internal integration [which are] taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein, 1990, p. 111). Researchers have created a wide variety of organizational culture types, models, and taxonomies (Denison, 1984; Donate & Guadamillas, 2010, 2011; Quinn & Rohrbaugh, 1981) and have shown that organizational culture predicts company performance (Denison, 1984; Gordon, & DiTomaso, 1992; Hartnell, Yi Ou, & Kinicki, 2011; Jimenez-Jimenez, & Sanz-Valle, 2011; Prajongo, & McDermott, 2011). Researchers have also demonstrated that organizational culture impacts the innovation process at the individual, team, and organizational levels (Chang et al., 2012; Crossan, & Apaydin, 2010; Donate, & Guadamillas, 2010, 2011; Naranjo-Valencia, Jiménez-Jiménez, & Sanz-Valle, 2011). Different aspects of organizational culture impact company performance and the innovation process.

Denison and Mishra (1995) developed an organizational culture model to study the relationship between culture and organizational effectiveness. There are four cultural dimensions defined by Denison’s model, (a) adaptability, (b) mission, (c) consistency, and (d) involvement (Denison et al., 2004). Mission and consistency have been found to be good predictors of financial performance (Denison, 2003), whereas adaptability and involvement are good predictors of innovation (Denison et al., 2004).
Research has shown that different aspects of organizational culture affect innovation and company financial performance. It is a logical assumption that different organizational cultures will be more effective in generating financial performance for companies in innovation driven industries than for companies in more stable markets. One limitation with the current literature is that there have been no studies that have examined the relationship between organizational culture and financial performance in companies in innovative industries. The purpose of this quantitative study will be to determine if the relationship between Denison’s four cultural dimensions and financial performance are moderated by type of industry.

**Significance**

The results of the study will assist practitioners in understanding the impact of organizational culture on company performance in innovative markets by identifying cultural dimensions that best balance the needs of company to maximize performance and innovation. The results of the study could assist leaders on engineering an organizational culture that positions the company for future growth in innovative industries. From a social change perspective, innovation drives social change (Christensen, Baumann, Ruggles, & Sadtlr, 2006). This research could assist companies to position their organizational culture to maximize innovation and performance, thereby increasing their ability to bring innovation to the marketplace. Understanding the impact organizational culture can have on the performance of companies in highly innovative markets could help minimize the conflicting organizational culture needs of businesses by providing a baseline fulcrum to balance organizational culture demands.
Organizational Culture

Organizational culture is a set of shared values and assumptions that define appropriate behavior (Detert et al, as cited by Prajogo & McDermott, 2011). The competing values framework (CVF) of organizational culture was developed by Quinn and Rohrbaugh (1983). In essence, the model defines competing values along three dimensions: (a) structure, (b) focus, and (c) means-ends. The X axis represents focus with internal on the left and external on the right of the X axis. The Y axis represents structure with control on the bottom and flexibility on the top. The four cultural dimensions of CVF are (a) clan, (b) adhocracy, (c) market, and (d) hierarchy. There are areas of overlapping dimensions between Denison’s adaptability and mission dimensions with the CVF adhocracy quadrant. For example, adaptability is a sub-component of adhocracy (Denison, & Spreitzer, 1991).

Previous research with CVF has identified company size, company age, industry (Prajogo & McDermott, 2011), and market turbulence (Jiménez-Jiménez, & Sanz-Valle, 2011) as variables that moderate the relationship between organizational culture and innovation research. Further, manufacturing industries tend to have better performance than service industries and service industries tend to enjoy greater innovation than manufacturing industries (Jiménez-Jiménez, & Sanz-Valle, 2011). Turbulent markets tend to experience lower levels of innovation than stable markets (Jiménez-Jiménez, & Sanz-Valle, 2011).

Organizational Culture and Financial Performance

Hartnell et al (2011) performed a meta-analysis of 84 studies and examined the CVF dimensions against employee attitudes, operational performance, and financial performance.
Hartnell et al. found that the market cultural dimension correlated higher with operational and financial performance than the clan and adhocracy dimensions (Hartnell et al., 2011).

Denison (1984) identified that highly organized work cultures and cultures with high levels of participatory leadership had better financial performance over a five-year period than companies with low levels of participatory leadership. Gordon and DiTomaso (1992) surveyed 11 insurance companies and found culture strength to be predictive of company performance. Culture strength was measured by the consistency of perception of company values (Gordon & DiTomaso, 1992). The two organizational culture traits measured were stability and adaptability and both traits, as long as the traits were strong, were predictive of positive short-term company performance.

**Organizational Culture and Innovation**

There are numerous definitions of innovation. For instance, Prajogo and McDermott (2011) functionally defined innovation as something that produces a new or improved outcome for the benefit of the company or its customers. Naranjo-Valencia and Jimenez-Jimenez (2011) defined innovation orientation as a strategy of being first to market with internally developed innovative products or services. Regardless of the precise definition of innovation, there are three types of innovation in an organization setting: (a) product, (b) process, and (c) administrative (Chang, et al, 2012). Product innovation is broadly defined with two levels of analysis: (a) incremental innovation and (b) radical innovation (Crossan, & Apaydin, 2010). Culture and innovation have been examined at the national (Tellis, Prabhu, & Chandy, 2009), organizational (Chang,Chang, Chi, Chen, & Deng, 2012; Jiménez-Jiménez, & Sanz-Valle, 2011) and individual levels of innovation (Kesting, & Ulhøi, 2010).
The relationship between innovation and organizational culture has been a topic of study for years (Crossan, & Apaydin, 2010). Donate and Guadamillas (2011, 2012) found that organizational culture moderated the relationship between product and process innovation. In a meta-analysis of 84 empirical studies, Hartnell, Ou, and Kinicki (2011) identified market culture to be statistically significantly correlated with innovation efforts.

In contrast with Hartnell et al. (2011), Valencia et al. (2010) identified adhocracy culture as an indicator of innovation. In alignment with Valencia et al., Prajogo and McDermott (2011) identified a developmental, or adhocracy, culture as the strongest predictor of product and process innovation from the CVF. Sharifirad, and Ataei, (2012) examined culture from the Denison organizational culture model and found mission and adaptability were the strongest cultural dimensions that supported innovation efforts.

Acs and Audretsch (1987) defined innovation driven industries by using the small business innovation research program (SBIR). Following this model, innovation driven industries will be defined by the top 20% of industries participating in the SBIR program administered by the small business administration (U.S. Small Business Administration, 2013). There is a lack of research examining the Denison organizational culture model and the differences in predicting company performance in innovative driven industries compared to more stable industries.

**Framework**

The competing values framework (CVF) originally defined by Quinn and Rohrbaugh, (1981) will be used for this study. The framework was developed to address the challenges of measuring organizational effectiveness across companies and industries (Quinn & Rohrbaugh,
1981). “The framework focuses on the competing tensions and conflicts inherent in any human system: primary emphasis is placed on the conflict between stability and change, and the conflict between the internal organizational and the external environment” (Denison & Spreitzer, 1991, p.3). The original taxonomy developed to explain organizational effectiveness included two primary dimensions of competing values: (a) flexibility / control, and (b) organization / people focus. Each dimension has criteria based on a short-term (means) or long-term (ends) dimension (Quinn & Rohrbaugh, 1981).

Since its development in 1981, CVF has been used by numerous organizational culture researchers to develop and define organizational culture taxonomies. For example, Denison’s (2013) organizational culture model is based on CVF (Denison & Mishra, 1995). The “clan, adhocracy, hierarchy, and market” organizational culture model was developed from CVF (Hartness, Ou, & Kinicki, 2012). Another organizational culture model based on the CVF is the group, developmental, rational, and hierarchical cultures; each cultural aspect has a “polar opposite,” (Denison & Spritzer, 1991, p. 6) that represents competing values. DeGraff’s Competing Values Framework™ (Competing Values, ND) is another taxonomy that focuses on individual leadership traits and organizational effectiveness from a strategic management perspective.

Research Questions

Does the type of industry moderate the relationship between the cultural traits of adaptability, mission, consistency involvement and organizational performance?

Null Hypothesis: Type of industry will not moderate the relationship between the four culture traits of adaptability, mission, consistency involvement and financial performance.
Alternative Hypothesis (H1a): Type of industry will moderate the relationship between the cultural traits of adaptability and involvement such that the relationship with financial performance will be more strongly positive for innovative driven companies than other industries.

Alternative Hypothesis (H1b): Type of industry will moderate the relationships between the culture traits of consistency and mission such that the relationship with financial performance will be more strongly positive for non-innovative driven industries.

Nature of the Study

The nature of this study will be quantitative. Quantitative research is consistent with the purpose of the study and will enable the statistical analysis, correlation, and structural equation modeling required to address the research questions. The independent variables are the four organizational culture traits defined in the Denison organizational culture model. Archival data will be used to test the hypotheses. The dependent variable, company financial performance, will be measured by examining return on investment, equity, and sales. The financial performance measurement is consistent with Denison’s (1984) previous work. The moderating variable, industry sector will be determined by the standard industrial code (SIC). Five years of company financial performance will be included in the study.

Possible Types and Sources of Information or Data

The possible sources of information consist of archival data. Denison Consulting will provide the data for organizational culture. The data for the company financial performance can be extracted from Form 10-K, the annual report required by the Federal Trade Commission. The SIC can be obtained from the Articles of Incorporation.
References


