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Universidad del Zulia
Facultad Experimental de Ciencias
Departamento de Ciencias Humanas
Maracaibo - Venezuela

Innovation and diversity based organization culture and its effect on competitive advantage

Yang Hao¹

¹Graduate School of Business, Universiti Sains Malaysia (USM),
Malaysia

Yanghao@ac.ur

Essia Ries Ahmed²

²Graduate School of Business, Universiti Sains Malaysia (USM),
Malaysia

Essia1200@ac.ur

Karpal Singh Dara Singh³

³Graduate School of Business, Universiti Sains Malaysia (USM),
Malaysia

kirpal005@ac.ur

Azlan Amran⁴

⁴Universiti Sains Malaysia (USM), Graduate School of Business,
Malaysia

Azlanamran@ac.ur

Abstract

The purpose of this research is to analyze the role of organizational culture in particular innovation and diversity culture towards helping organizations to achieve competitive advantage. The research adopts a quantitative approach, where a set of questionnaire was developed by making necessary adaptations to available scales. As a result, both innovative and diversity based organization culture is positively associated with a competitive advantage and can put organizations towards the path of increasing their competitiveness. In conclusion, the results of the study support the proposed organizational culture types (namely, innovation and diversity) that play a dominant role in achieving competitive advantage.

Keywords: Organization, culture, competitive, advantage, innovation.

La innovación y la cultura organizativa basada en la diversidad y su efecto en la ventaja competitiva

Resumen

El propósito de esta investigación es analizar el papel de la cultura organizacional en particular la cultura de innovación y diversidad para ayudar a las organizaciones a lograr una ventaja competitiva. La investigación adopta un enfoque cuantitativo, donde se desarrolló un conjunto de cuestionarios haciendo las adaptaciones necesarias a las escalas disponibles. Como resultado, tanto la cultura de organización innovadora como la basada en la diversidad se asocian positivamente con una ventaja competitiva y pueden poner a las organizaciones en el camino de aumentar su competitividad. En conclusión, los resultados del estudio respaldan los tipos de cultura organizacional propuestos (a saber, innovación y diversidad) que desempeñan un papel dominante en el logro de una ventaja competitiva.

Palabras clave: organización, cultura, competitividad, ventaja, innovación.

1. INTRODUCTION

Organizational culture as a leadership concept has been identified as one of the many components that can be used to nurture and grow a dynamic organization and to adapt to a constantly changing business environment. For a leader who is trying to get the organization to become more effective in the face of severe

environmental pressure, organization culture is definitely an important component affecting the survival of an organization. According to Naranjovalencia et al. (2016) organization culture has a long-term impact on the competitive advantage of firms which creates a basis for current research endeavor as it intends to analyze the organizational culture of companies that are established with different ownership structures, management systems, style and institutions in Malaysia. This study aims to explore the nature of organizational culture across these types of companies and investigate the relationship between organizational culture and competitive advantage.

This research posits that innovation and diversity-based cultures can help foster a progressive work environment and nurture a competent workforce with a high sense of personal mastery. Employees with a high sense of personal mastery are so competent that they are able to extend their abilities in changing organizational realities. Such skills and competencies become so ingrained in these organizational cultures that it cannot be easily extracted and replanted elsewhere in a meaningful way thus giving an organization its competitive advantage. It is this phenomenon of the firm's culture and its social complexity that plays an important role in defining competitive advantage and the survival of many companies. This research focuses on two types of organizational culture namely, innovation and diversity cultures. The research seeks to examine the relationship between organization culture (innovation and diversity) and the competitive advantage of manufacturing companies. The study

measures the perception of executive level employees from the manufacturing industries in Penang, Malaysia.

2. LITERATURE REVIEW AND RESEARCH HYPOTHESES

2.1. Innovation Culture and Competitive Advantage

According to Keegan & Turner (2002), innovation culture denotes the value of strategic goals set and shared by the employees of an organization. Organizations that are focused on innovation are able to retain and attract employees that are focused on sustaining operations and that are able to create strategic value. According to Keegan & Turner (2002), in organizations, an innovation culture is one that emphasizes learning, innovation, and personal growth, invests heavily in people development, and builds the working environment to support this conviction. An organization with a strong innovation culture drives an open, honest, accepting, and psychologically safe environment for learning and growth, where employees feel valued, and people thrive alongside their business. Chinloy and Mujtaba (2007) stated that organizational characteristics of innovation culture type focus on the pursuit of innovation and development.

Based on the views of Chen et al. (2018), organizations need to take various efforts to enable innovation culture to flourish and effect changes in behaviors and practices. Organizations need to target the fundamental philosophies and mindsets that support and enable

learning. This relates to the embedding of a shared and entrenched set of growth-focused guiding principles that are so pervasive throughout the organization that they continuously shape, define, and guide every individual's views, the language used, their behaviors as well as decisions around daily operations and structure (Chen et al., 2018). This, in turn, drives the shared desired culture within the organization. An innovation culture is the result of employee's creativity in an organization which has a strong bearing towards satisfying changing customer requirements.

2.2. Diversity Culture and Competitive Advantage

Cultural diversity refers to the mixture of cultures and subcultures to which the organization's workforce belongs. From the increasingly diverse domestic workforce to the globalization of business, cultural competence is arguably the most important skill for effective work performance in the 21st century. According to Cabralcardoso (2010), diversity refers to the variety of human resources, customers and suppliers in the organization context. According to Cho and Morbarak (2008), Asian countries have given less attention to diversity management as compared to western countries due to the misconception that diversity is less important. The world of business continues to move ever rapidly towards a global village accelerated by changing political, social, economic forces enabled by affordable air travel and communications technology, including the internet.

While cultural factors have been recognized as critical in modern business, the earlier more anthropological ideas emphasized that differences need to be supplemented and extended by a new body of knowledge that is more relevant to today's world. The focus and needs are shifting not only from simply understanding the cultural difference but most importantly to leveraging the differences for increased competitive advantage.

3. METHODOLOGY

This research targeted executive level employees working in manufacturing companies located in Penang, Malaysia. There are many multinational companies (MNC) and local manufacturing companies operating within the Bayan Lepas Free Industrial Zone (FIZ) – Malaysia's first and most formidable Free Industrial Zone that was set up primarily to attract foreign direct investments in Malaysia since 1971.

4. FINDINGS

4.1. Descriptive Analysis of Variables

The descriptive analysis of variables was analyzed through SPSS. Table 1 below shows the minimum, maximum, mean and standard deviation for all three variables used in this research study.

Table 1: Descriptive Analyses of Variables

Variables	Minimum	Maximum	Mean	Std. Deviation
Innovation Culture	1.00	5.00	3.63	0.70
Diversity Culture	2.60	5.00	4.14	0.54
Competitive Advantage	2.13	5.00	3.98	0.61

Based on the table, the average mean is between 3.63 and 4.14. The lowest mean is innovation culture and the highest mean is diversity culture. All the three variables have an average mean of more than 3.0 which implies that most of the respondents responded favorably towards all the variables. The standard deviation for all three variables is less than 1.0 which indicates that the variation is considered reasonable.

4.2 R Square

R square represents a simple correlation to measure the predictive accuracy of the model that shows how close the data fits the regression line. The value is always ranging from 0% to 100%, when the percentage is higher it explains that all the variability of the response data is around its mean. R square for competitive advantage is 0.491 which means that Innovation Culture and Diversity Culture can explain 49.1% of variance towards competitive advantage. This also means that approximately half of the observed variation can be explained by the model's inputs.

Table 2: R Square Value

	R Square
Competitive Advantage	0.491

4.3 Path Coefficients

Path Coefficients is one of the modeling approaches to evaluate causal models by examining the relationships between a dependent variable and two or more independent variables. This results in a model showing causal mechanisms through which independent variables produce both direct and indirect effects on a dependent variable.

For samples size over 100, the significant level for the path coefficient has to be greater than 0.2. Innovation culture showed a higher significance on Competitive Advantage since the path coefficient is the highest which is 0.457. The effect of diversity culture on competitive advantage is 0.180. The smaller the value of path coefficient, the lesser the significant impact will be towards competitive advantage.

Table 3: Path Coefficient

Variables	Competitive Advantage
Innovational Culture	0.457
Diversity Culture	0.180

4.4. Bootstrapping (Hypotheses Testing)

Based on table 4, the hypotheses is supported at significant level at p-value less than 0.05. The results are similar to the assumptions made on path coefficient earlier. Results of Bootstrapping is presented in the table below.

Table 4: Summary of Bootstrapping

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Innovation Culture Competitive Advantage	0.457	0.462	0.074	6.169	0.000
Diversity Culture Competitive Advantage	0.180	0.188	0.077	2.333	0.020

5. DISCUSSION AND CONCLUSION

Inferring from the overall results of the study, it can be concluded that the two organization culture types (innovation and diversity) are closely related to competitive advantage, which is consistent with the views of Denison (1990) suggesting that organizational culture is directly linked to the overall performance of an organization. Accordingly, hypothesis H1 is supported as the path coefficient of an innovation culture to competitive advantage has shown a significant positive figure (path coefficient =0.457) which

means that this variable has a positive relationship with a competitive advantage. Executive employees in the selected MNCs were of the opinion that an innovation culture can certainly help increase and strengthen an organization's competitive advantage.

Based on the bootstrapping result, the p-value for an innovation culture to competitive advantage is 0.000 which means that the relationship between innovation culture and competitive advantage is statistically significant. This finding is consistent with Keegan & Turner's (2002) findings that organizations emphasizing open systems orientation and implementation of new ideas will be able to improve existing processes for achieving long-term competitive advantages thus creating unparalleled value for organizations.

The path coefficient of diversity culture towards competitive advantage has shown a significant positive figure which means there is a positive relationship between diversity culture and competitive advantage, hence supporting hypothesis H2. This meant that organizations that embrace and celebrates diversity can achieve a competitive advantage. As for the results from bootstrapping, it also shows that the path of diversity culture to competitive advantage is statistically significant. This finding has been supported by Hunt et al. (2015) who stated that diversity nurtures innovation and creativity between employees through a greater variety of problem-solving approaches, standpoints, and ideas. Academic research has shown that diverse groups often outperform experts.

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