Organizational Culture as Source of Innovations in Organizations
Abstract

In now-a-days competitive global markets, organizations are required to become more flexible and adaptable in order to survive in the rapidly changing business environment. The ability to innovate is touted to be the key factor for ensuring the continuity and increased competitiveness of organizations. However, many attempts to create and implement innovations in organizations turn out to be unsuccessful due to the fact that organizational culture is unsuitable for the innovation effort. This thesis contributes to the discussion of innovation supportive culture by identifying the most essential aspects of organizational culture related to organizations’ ability to innovate. It is argued, that despite the extensive research on the subject of organizational culture, the terminology and definitions are found to vary greatly within researchers, thus complicating the research subject. Nevertheless, organizational culture, and especially it’s aspects of innovative values, organizational climate and leadership, are identified as crucial components for successful creation and implementation of innovations.

Keywords: organizational, corporate, culture, innovation, value, climate, leadership, change
Foreword

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1. Introduction

This thesis aimed to clarify the association between organizational culture and innovation creation and implementation in organizations. Growing evidence suggest that organizational cultures supporting new-product development processes in organizations can cultivate creativity, innovativeness and initiative-behavior amongst the participants of the organization (Jassawalla & Sashittal, 2002). In the context of high-tech organizations, R&D investments have been identified to yield positive impacts on productivity and more importantly, the gains from the investments are found to be greater when compared to low-tech organizations (Ortega-Argilés, Potters & Vivarelli, 2011). The ability to utilize and create knowledge is becoming increasingly valuable aspect for organizations to support innovation and it is required to be competitive in globalized markets (Lemon & Sahota, 2004).

In the last few decades, globalization of markets and industries has resulted in big changes in the world economy (Wiersema & Bowen, 2008). Due to the increasing level of foreign competition and industry rationalization, organizations are faced with multiple competitive forces contending over the same market share (OECD, 2003). In order to survive in such competitive markets, organizations are required to devise strategies to minimize the risks caused by competition, and to ensure the growth of the organization (Porter, 1979). Innovation has been recognized as a stable source of competitive advantage which also allows organizations to better meet the requirements of the changing business environment (Khazanchi, Lewis, & Boyer, 2007). Thus a common way for organizations to secure their position in the markets is to invest into research and development (R&D) activities in order to gain competitive advantage due to new innovations.

Despite the merits and promise of increased competitive advantage, innovations have been recognized to pose ambiguous challenges. Implementing innovations may affect the way in which interaction between occupational and functional boundaries occurs and eventually require changes in the organizational structure and climate. (Baer & Frese, 2003; Black, Carlile & Repenning, 2004.) This has led many attempts to implement innovations to fail due to the incapability of organizations to adapt to the changed patterns of interaction, and thus fail to gain the benefits of the newly introduced technologies (Robey & Boudreau, 1999). Also the need to generate organizational climate which supports open discussion and proposition of new ideas between parties in the implementation process, is often neglected, leading attempts to implement technically driven solutions to failure (Baer & Frese, 2003). In addition, neglecting paradoxical requirements of innovation such as flexibility and control, may lead to serious problems (Lewis, Welsh, Dehler & Green, 2002).

In the literature, organizational culture has been proposed as a solution to management of innovations (Khazanchi et al., 2007). Hurley and Hult (1998) claim that organizations whose cultures are supportive to innovation, provided with needed resources, are more likely to generate innovations and gain increased competitive advantage. Jassawalla and Sashittal (2002) propose that culture can provide a comprehensive frame, which can be used to align worker behavior with organizational goals and provide a way to meet the demand of flexibility and control.
However, to shape the organizational culture to meet the business goals of the organization, it is crucial to understand from which dimensions the culture derives from and how it can be affected (Cameron & Freeman, 1985). Organizational culture is comprised of ambiguous factors including organizational structure, business environment, personnel, used technologies and even nationalities of the organization (Needle, 2004). The unique nature of organizational culture means that there are no off-the-shelf solutions to shape the culture to match organization’s business goals, but instead a deeper analysis is needed in order to understand the underlying levels of organizational culture, which affect the way organization conducts its daily activities.

The goal of this thesis was to clarify: what is the relation between organizational culture and innovation creation and implementation? The conducted literature review reveals that despite the extensive research on the subject of organizational culture, the terminology and research approaches on the subject are still incoherent, thus complicating the field of research (Schein, 2010). In the literature innovation supportive culture is examined through aspects such as organizational values, organizational climate and organizational leadership (Baer & Frese, 2002; Khazanchi et al., 2007; Schein, 2010; Tesluk, Farr & Klein, 1997). The reviewed bibliography reveals that all of the aforementioned aspects play important role in organizations aim to innovate, but most importantly they prove that organizations can benefit from aligning organizations culture to meet the goal of innovation.

The structure of the thesis is as follows: In chapter 2 organizational culture and its levels are briefly explained. Chapter 3 will discuss and define innovation with the aim to clarify the aspects of culture linked with increased innovativeness. Chapter 4 discusses the findings regarding innovation supportive culture. Chapter 5 presents conclusions and suggests further research based on the findings.
2. Organizational Culture

In this chapter, organizational culture and its fields are briefly explained. Corporate culture and organizational climate are considered as separate parts of organizational culture. Corporate culture is examined as organizations way to enforce specific organizational traits such as flexibility or control in order to change the culture to meet with organizations business goals.

2.1 Organizational culture defined

Organizational culture is a broad and ambiguous subject with a plethora of varying interpretations. Schein (2010) describes culture of a group as a “pattern of shared basic assumptions that a group has learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (p.17). Needle (2004) views organizational culture to be the sum of multiple different factors such as values, beliefs and principles which result from history and the characteristics specific to the organization. To generalize, organizational culture derives from multiple different factors which effectively shape and differentiate organizations from each other, thus resulting in an organization specific culture.

The reason behind the interest in organizational cultures lies in its effects on organization’s performance. A positive culture can be the source of competitive advantage, whereas negative culture can be a hindrance to the organization. (Sadri & Lees, 2001.) The nature of organizational culture is well summarized by Schein (2010) “Culture is an abstraction, yet the forces that are created in social and organizational situations that derive from culture are powerful. If we don’t understand the operation of these forces, we become victim to them.”(p.3). These findings speak of the importance of organizational culture for the organization’s performance, thus leading many organizations in attempts to change the culture to better match the organizations’ business goals.

2.2 Values and beliefs, norms and value congruence

In literature, organizational culture is often examined through values and beliefs, norms and value congruence (Quinn & Rohrbaugh, 1983; Cameron & Freeman, 1985; Khazanchi et al., 2007; Schein, 2010). Values and beliefs are the basic principles, embedded in an organization, which guide the actions and decision making in an organization (Schein, 2010). Organizational values and beliefs cover aspects from physical behavior to more abstract cognitive values such as aim of continuous improvement and being creative. In business perspective, the values represent what the organization stands for and form the base on which trust and organization’s reputation is built on. (Bruce Mayhew Consulting, 2010.) According to Schein (1983), leaders and founders bring their own values and beliefs to the organization, which are further taught to new organizational members as the right way to think and act. Schein (1983) notes that entrepreneurs, the founders of the organizational idea, are usually biased on certain ways to achieve their business idea, which originates from the previous cultural
experiences and personal traits of the leader, thus affecting the adoption of certain organizational values and norms. As values are adopted by members in an organization, they can reduce uncertainty and work as a guideline for individuals, when deciding how to react in various problem situations (Schein, 2010).

In spoken language, organizational norms are often depicted by a sentence “the way we do things around here”, which originates from definition of organizational culture by Deal and Kennedy (1982). Organizational norms can be used to examine the differences in organizations’ work methods, the ways in which workers behave and conduct their daily activities. Behavioral norms arise from interaction between group members and may lead to specific language and terminology, and unspoken rules on how to react in social situations. (Schein, 2010.) Differences in behavioral norms can also occur due to the varying national cultures embedded in the work group. The differing national cultures can cause misunderstandings due to the differences in work methods, social behavior and used terminology (Herbsleb, Paulish & Bass, 2005.) Norms are often taken for granted by the group members as they have been passed and taught to members of the organization through socialization, as the right way to act. Overall, norms can guide, but also constrain behavior in a way that isn’t aligned with organizational business goals. (Schein, 2010.)

Value congruence is a measure of how coherent the values are between individual and organization (Kristof, 1996). Quinn and Rohrbaugh (1983) identified that perceptions of organization’s values may alter between different hierarchical levels, departments and depending on the geographical locations. It has been found that similar values between workers and the employing organization, will lead to increased worker satisfaction and make it easier for the workers to identify themselves with the organization (Kristof, 1996; Edwards & Cable 2009). Value congruence has also been identified as a source of more cohesive culture, making the expected behavior of workers more consistent. In turn, the consistent values help at aligning goals and have been found to improve performance (Denison 1990; Gordon & DiTomaso, 1992.)

2.3 Cultural levels

Organizational culture is often difficult to analyze due to its subconscious nature and the fact that individuals immersed in the culture often find it hard to express and identify the underlying values and beliefs (Cameron & Freeman, 1985). Schein (1984, 2010) explains that getting to understand the values that guide actions of individuals can be difficult as the values lie in the deeper, subconscious level of culture, meaning that in-depth interviews are usually needed. Further deciphering the interviews can be tricky due to the fact that people often rationalize, giving answers which they would prefer to explain their actions, leaving the underlying reasons for their actions in the dark. To provide a framework for examining culture, Schein (1984, 2010) divides organizational culture into three different levels: artifact level, espoused beliefs and values, and underlying assumptions (Fig.1).
Artifact level (Fig. 1) is the part of the organizational culture that is visible to outsiders. It includes physical appearances, products of the group, used language, manners and emotional displays, myths and stories about the organization, publically listed values and observable rituals and ceremonies. (Schein, 2010.) Denison (1990) describes the artifact level as the tangible aspect of culture, shared by group members, which include verbal and physical level artifacts. Schein (2010) emphasizes that artifact level is easy to observe but hard to decipher as the artifacts might hold different meanings in different organizational settings. In order to decipher the artifacts the observer must either live in the group long enough to get an understanding of the hidden meanings of the artifacts or examine the espoused beliefs and values that guide the actions of the group.

Espoused beliefs and values (Fig. 1) derive from the interaction between group members where the individuals propose their own values and beliefs, their perceived correct way to do things, in order to solve problems. When the proposed solution is accepted and after empirical testing perceived successful by the group members, the values will gradually turn into shared values and eventually into shared assumptions. (Schein, 2010.) Some value domains such as moral and aesthetics cannot be empirically tested, but instead consensus is reached by social validation, where the group members reinforce each other’s values, making them to be taken for granted. These moral rules and operational values, beliefs and norms are further used to guide actions in difficult situations and to teach new organizational members how to behave. (Schein, 2010.)

Underlying assumptions are values and beliefs which are taken for granted by the members of a group due to the repeated success on implementing them. In groups where the basic assumptions are strongly held, other ways of acting are considered unthinkable. The basic assumptions are often undebatable making them very hard to change and changing them will cause anxiety to the group members. Essentially, the underlying assumptions are the ultimate source of visible artifacts and existing values, and by understanding it, dealing and understanding the surface levels of culture becomes gradually easier. (Schein, 2010.)

2.4 Organizational climate

Organizational climate is a term often used as a synonym with organizational culture despite that they are different concepts, though closely related (Denison, 1996). James, Joyce and Slocum (1988) explain that organizational climate is a property of an individual which refers to how people generally perceive the organization. Baer and Frese (2003) remark that climate can be considered a manifestation of culture and it is related to the processes which cause the visible, artifact-level outcomes. Schneider, Gunnarson and Niles-Jolly, (1994) describe organizational climate as the atmosphere in
an organization which is affected by the practices, procedures and rewards of the organization. According to James, James and Ashe (1990) organizational climate develops as individuals reflect their personal values to their organizational context and environment. Schwartz and Davis (1981) explain that organizational climate is a measure of whether workers’ expectations of what it should be like to work in an organization are met, whereas organizational culture is more interested in the expectations themselves.

The climate develops as the employees observe events in their work environment, allowing them to make conclusions about organizations priorities. This in turn will affect the way workers direct their energies and competencies, aiming to match with the priorities of the organization (Schneider et.al., 1994.) Brown and Leigh (1996) claim that organizational climate may significantly affect the motivation of individuals in achieving work outcomes. Different types of organizational climates are found to exist between organizations and even within functional departments, which affect the ways individuals act and meet organizational goals (Schneider et al., 1994).

As organizations have multiple priorities and goals, it may be beneficial for organizations to have different climates between different departments (Schneider et.al., 1994). For example, climate for initiative and climate for psychological safety were found to be positively related to successful innovation implementation and return of assets in organizations (Baer & Frese, 2004). Thus investing in climate, specifically aligned to meet business goals of certain department, can be beneficial for the organization. For example in the case of innovation focused organization, Baer and Frese (2004) suggest that before any larger investments in change processes and innovation creation are considered, the organizations should focus on creating climate supportive of initiative and psychological safety, to ensure the success of the change process.

2.5 Corporate culture

The terms organizational - and corporate culture are often used interchangeably, describing the culture within an organization (Sadri & Lees, 2001). In this paper, corporate culture is specified to refer to the values and policies enforced by the management, in order to change organizational culture to be aligned with the organizations business goals and mission statement.

As previously discussed, organizational culture constitutes of multiple varying factors which will greatly affect the way organization conducts its daily actions. Organizational culture doesn’t appear from thin air, but instead it arises from the values brought to the organization by its leaders and workers (Schein, 2010). However, organizational culture isn’t constant as it changes within time in an evolutionary manner. This may lead to a contradiction between organizational goals and the formed culture, resulting in a dysfunctional culture. (Schein, 2010.) Due to the divergence between the culture and the business goals, the efficiency of the organization will be hindered (Balthazard, Cooke & Potter, 2006). According to Schein (2010) the organizations leaders’ main responsibility is to create and manage culture, and it’s the ultimate act of leadership to destroy culture when it is deemed dysfunctional. However to change the culture of an organization, it is crucial to understand from which dimensions the culture derives from and how it can be affected (Cameron & Freeman, 1985).

Qubein (1999) identified multiple key elements associated with creating positive corporate culture. According to Qubein (1999) it is crucial that the corporate culture is fostered by aligning management and workers behind distinct corporate vision, which
reflects the desired goals of the organization. Also the corporate values should be imposed in a way that they don’t violate the personal values of the workers, as otherwise individual workers will not be able to embrace them as their own (Qubein, 1999). Greenberg and Baron (1997) remark that corporate visions are delegated most efficiently when proposed by the top leaders of the organization with strong values and dynamic, charismatic personalities. Also to be effective, the corporate vision has to permeate all the levels of the organization (Qubein, 1999). Schneider, Brief and Guzzo (1996) claim that organizational culture cannot be directly manipulated, but instead the organizational climate can be used as a medium to affect the values and beliefs of the workers. Further, corporate vision will not be assimilated by the workers by merely manifesting a new mission statement, proposing new working practices or even changing organizational structure. Instead of directly manipulating the culture, change is needed in the tangible aspects such as everyday working practices, policies, procedures, reward systems and routines, which shape and affect the organizational climate and eventually communicate new values and beliefs. (Schneider et al., 1996.)

As the goals and business domains of the organizations vary, the types of cultures emphasized by the organizations will also differ. A research conducted by Cameron and Quinn (1999) devised an organizational culture assessment instrument (Fig. 2) based on competing values framework. Using competing value dimensions such as flexibility and discretion vs. stability and control and internal focus vs. external focus, the framework is able to identify four distinct culture types: clan, adhocracy, market and hierarchy. (Cameron & Quinn, 2011.) Each of the identified culture types exhibit features such as basic assumptions, orientations and values, which comprise the organizational culture. The main characteristics of these four culture types are briefly explained next.

![Competing values framework](image)

**Figure 2.** Competing values framework (Cameron & Quinn, 1999).

Clan culture (See Fig 2.) focuses on creating a friendly workplace where the leaders act like father figures and mentors. According to Cameron and Quinn (2011) clan culture is generally associated with creating and maintaining positive employee attitudes where the organization is held together by loyalty and tradition. They explain that clan cultures usually exhibit characteristics such as high support for team working and employee involvement. Adhocracy (See Fig 2.) is described as a dynamic culture where innovation and adaptability are valued over strict rules. The focus on innovation and orientation towards external environment makes adhocracy a common culture type in
domains such as aerospace, software development, think-tank consulting and film-making industries, in which creating innovative products and quickly adapting to new possibilities is crucial, (Cameron & Quinn, 2011.) According to Figure 2, hierarchy cultures are internally focused with their goal on maintaining smooth and stable production with easily predictable output. To achieve this goal, hierarchy culture enforces strict rules and formalized working procedures, which govern how people do their work. (Cameron & Quinn, 2011.) According to Child (1973) cultures with high levels of hierarchy will hinder innovation due to the highly formalized structure and strict rules and regulations, which limit the capacity of organizational members to assume the risks of innovation. Market cultures (See Fig 2.) are externally focused with high emphasis on competitiveness and productivity. The main goals in market cultures are to expand market share and increase the profits while attempting to reach market leader position. In market culture it is presumed that clear goals and an aggressive strategy will lead to increased productivity and profitability (Cameron and Quinn, 2011.)

As previously mentioned, different organizations benefit from different cultures. Cameron and Quinn, (2011) emphasize that each organization must determine the cultural type and it’s congruence to match the demands of the environment. According to the competing values framework (Fig.2) it is suggested that cultures which emphasize flexibility and external focus, will increase the innovativeness of the organization (Cameron & Quinn, 2011). In the next chapter, the aspects relating to innovation supportive culture are examined in more detail.
3. Innovation Supportive Culture

This chapter sheds light on the importance of innovations in organizations and clarifies the aspects regarding innovation supportive culture in four sub-chapters.

3.1 Defining innovation

Innovation supportive culture has been studied from multiple aspects by multiple authors. To mention a few, the aspects of innovation supportive culture range from values and norms, value congruence, effects of founders and leadership, organizational climate, organizational change to efficiency (Baer & Frese, 2003; Cameron & Freeman, 1985; Denison, 1984; Schein, 1983; Schein, 2010; Schneider et al., 1996)). The multiplicity of research regarding innovation speaks of the importance of the subject but also of its ambiguous nature.

In order to analyze innovative culture, it is crucial to understand what it means for organizations to be innovative and create innovations. The types of innovation are often divided as product and process innovations. Damanpour and Gopalakrishnan (2001) explain product innovation as a development of new goods or services, and managing such innovations enables organizations to match or even lead the demands of the changing markets. Process innovation instead focuses on improving production methods, services or administrative operations. Implementing successful process innovation may lead to increased efficiency and responsiveness of the organization (Damanpour & Gopalakrishnan, 2001).

In the literature, innovation has multiple definitions and it’s often used as a synonym with creativity (Martins, & Terblanche, 2003). However creativity can be defined as the trait of an individual or a group within an organization, which enhances the creation of new ideas, whereas innovation can be perceived as a trait of an organization to support individual creativity and the ability to implement the new ideas (Amabile, 1988; Martins & Terblanche, 2003; Westwood & Low, 2003). According to Martins and Terblanche (2003) creativity and innovation are two intertwined parts of the creative process – idea generation and implementation. Innovation supportive culture instead can be described as a framework for fostering expectations and being a guideline for worker creativity, experimentation and risk taking (Jassawalla & Sashittal, 2002). This division of creativity and innovation is shown on Figure 3, adapted from definition of creativity and innovation by Martins and Terblanche, (2003).
In Figure 3, innovation supportive culture is depicted as a comprehensive frame supporting both creativity (Jassawalla & Sashittal, 2002) and the implementation of the new ideas – innovation (Amabile, 1988; Martins & Terblanche, 2003). Innovation is often associated with change, however not all changes can be considered innovations since change doesn’t always include new ideas or benefit the organization (West & Farr, 1990). Thus Martins (2000) defines innovation as implementation of new, often problem solving idea or material artifact, which is considered relevant by the unit of adoption, and thus adopting it will bring changes in organization.

The creativity frame (Fig.3) denotes the idea generation process conducted by individuals or groups within an organization which produces ideas for further evaluation to become innovations. To support the creativity, it is important for organizations to foster the idea generation by adopting innovation supportive values and encourage creative behavior (Martins & Terblanche, 2003). The innovation frame (Fig.3) describes the organizations processes for evaluating the proposed improvement ideas and eventually implementing them as new innovations. Individual creativity itself is not sufficient for organizational innovativeness, but instead organizational characteristics play a significant role in accepting and implementing the new ideas (Arad, Hanson & Schneider, 1997). Creating and maintaining innovative climate is suggested to be an important part of successful implementation of innovations (Baer and Frese, 2003), and

Figure 3. Defining creativity and innovation, adapted from Martins and Terblanche (2003).
it has been identified to play significant role at supporting individual creativity (Tesluk et al., 1997, Schneider et al., 1994). Also the type of leadership and management in the organization plays a big role in conveying the preferred values to the workers (Qubein, 1999). It is ultimately the responsibility of the leaders to analyze and manage corporate culture in order to align it with organizational goals and values (Schein, 2010), in this case, ensuring innovation supportive culture.

3.2 Innovative values and behavior

It is noted by Claver, Llopis, Garcia and Molina (1998), that “innovative attitude” is the key factor for innovative organizations success. Organizations’ innovative attitude manifests itself in the form of corporate values and mission statements, which can be used to align the worker behavior with the organizational goals of innovation (Jassawalla & Sashittal, 2002). According to Lemon and Sahota (2004), innovations are partly the outcome of groups understanding of business opportunities and or possibilities provided by new technologies, leading to more efficient product development. For organization to harness this source of innovations, work environment supportive of expressing new ideas, without harmful consequences to the proposer, and fostering information sharing amongst workers is important (Martins & Terblanche, 2003). Claver et al. (1998) propose that organizations’ ability to accept risks and challenges set forth by new opportunities, is evident to affect the success of innovations. Matsuno, Mentzer and Özsomer (2002) identified that flexibility, lack of formality and organic structures point towards proactive strategic orientation, which emphasizes risk taking and innovativeness. According to Jassawalla and Sashittal, (2002) innovative values such as fostering teamwork, promoting creative actions, and fostering initiative and risk-taking, are directly associated with efficient new-product development.

Cultures supporting freedom as a core value have been proposed to support creativity and innovation by empowering individuals by providing them autonomy to do their work and participate in decision making (Martins & Terblanche, 2003). Naranjo-Valencia, Jiménez-Jiménez and Sanz-Valle (2011) explain that autonomy and freedom incite creativity, which is the key requirement for pioneering innovations. According to Denison (1984), participative decision making has positive effect on organization’s performance in varying situations and further suggest that the effects may be even greater in situations where the business environment changes rapidly. However the research by Denison (1984) reveals that participative decision making takes time to pay off, and it is suggested as an investment for the future.

In a process innovation setting, Khazanchi et al. (2007) identify paradoxical requirements of both flexibility -and control values to be positively related to innovation. Flexibility values were identified to foster experimentation and empowerment among the workers and thus increase the plant performance. Control values, however, were regarded as more complex aspect since no clear correlation between performance and control values were identified (Khazanchi et al., 2007). However, Khazanchi et al. (2007) suggest, that control values may indirectly increase innovativeness by setting boundaries for innovation, such as stable routines and goals, which facilitate managerial trust and evaluation. Findings by Lewis et al. (2002) support this statement as they identify control values to be positively related to improvisation during product development. They find that predetermined project management style (e.g., milestones and formal reviews) provide necessary framework for supporting brainstorming and experimentation. Similar findings were identified by Quinn and Rohrbaugh (1983) who emphasize the importance of different value profiles which are a cohesive set of values which guide the actions of organizational members. The value profiles are often contradictory, like flexibility and control, which is why successful
organizations tend to adopt more than one profile to meet their business goals (Quinn & Kimberly, 1984).

When preferred values are successfully fostered and adopted in the organization, they will eventually turn into behavioral norms that further encourage preferred way of action (Schwartz & Davis, 1981). When normative behavior is established in an organization, it is further taught to newcomers through socialization as a right way to act, thus reducing anxiety within workers (Schein, 2010). In the case of organization focused on innovation, the innovative values can express that creativity and innovation are part of reaching organizational business goals. Simultaneously organizations can enforce and create new values supportive of creativity and innovation by changing procedures, policies and activities, thus leading to improved innovative capacity (Tesluk, Farr & Klein, 1997).

3.3 Climate for creativity and innovation

As previously mentioned, organizational climate can be referred as the individuals’ perception of what is valued in the organization (Joyce & Slocum, 1988). According to Schneider et al. (1994) organizations’ daily practices, procedures and reward systems affect the way in which organizational climate develops. They explain that climate is an aggregate of multiple different factors (e.g., practices, procedures, available resources, management style), therefore simply changing one aspect is not enough to change the climate in to a preferred state. In this context, the organizational climate is defined as the measure of how individuals perceive the organizational values and goals, and thus reflect and direct their own behavior and competencies based on the perceptions. On the other hand, the way employees direct their competencies, becomes a crucial component at forming climate (Schneider et al., 1994). Tesluk et al. (1997) identify five dimensions of climate for creativity which can be affected by policies and procedures: goal emphasis, means emphasis, reward orientation, task support and socioemotional support.

When workers perceive and identify the organizational goals of innovation and creativity, the goal emphasis of creative organizational climate is said to exist (Tesluk et al., 1997). They further explain that a strong goal emphasis can be important for providing standards to increase employee awareness on which terms they can be evaluated and thus providing a basis for monitoring their own progress. Goal emphasis can be useful for developing self-efficacy expectations amongst the workers’ creative behavior, which is a crucial aspect for creating and maintaining motivation, effort, and tenacity for achieving work outcomes (Bandura, 1986). Means emphasis is described as the way in employees are conveyed with the information and methods on how to do their work creatively. Policies and managerial practices supportive of examining problems from multiple aspects with the emphasis on high levels of employee involvement are recognized to support this dimension. (Tesluk et al., 1997.) According to West (1990) it is crucial that employees recognize that their input of new ideas and change effort is supported and actively encouraged by the management. Tesluk et al. (1997) describe that when organizational policies and practices recognize and highlight the creative efforts of the employees, reward orientation is said to be in place. The reward orientation can encourage employees to act creatively by providing incentives such as financial rewards, promotions and other ways of recognizing their effort (West & Farr, 1990). However, to implement reward orientation, it must be planned carefully since it can affect negatively to the intrinsic motivation of the employees (Tesluk et al., 1997). Amabile (1988) identified that workers tend to be less creative when their main source of motivation is money or recognition and especially in the cases where the work goals are set by others. Task support is described as the level in which employees
perceive that they are being provided with sufficient resources in order to work and act creatively. The resources can range from time, financial support, training to materials, which are necessary for the innovative effort to occur. For example, if the organization’s goal is to create a climate for creativity and innovation, but the task support is inadequate, a mixed signal of the organizations priorities is sent to the employees. (Tesluk et al., 1997.) Tesluk et al. (1997) describe that when employees perceive management and organization’s policies and practices to stand for their interests and welfare in such manner that allows experimentation with new ideas, organizational climate with strong socioemotional support can be said to exist. With climate providing socioemotional support, employees are free to discuss and debate with new ideas, through which feelings of trust and freedom develops within employees (West, 1990).

Tesluk et al. (1997) examine organizational climate mainly from the perspective of human resource practices, but they emphasize that other organizational variables can also affect the climate perceptions. According to Kanter (1988) organizational structure and the physical layout of the work environment may also contribute to individual creativity and innovation. Tesluk et al. (1997) conclude that in order to generate strong climate for creativity, it is necessary to design organizational structures, policies, practices and procedures in a way that they are aligned and complementing with each other for supporting the creativity process. Schneider et al. (1994) explain that in order for the organization’s innovative vision to come true, the management needs to demonstrate their dedication towards creativity by providing financial and emotional support to the new ideas, products and services.

Climate for initiative and psychological safety were recognized as two particularly important domains of climate for implementing successful process innovations. Climate for initiative refers to the formal and informal practices and procedures in an organization which guide and support proactive, self-starting, and continuous approach to work. In the short run, climate for initiative is often perceived as a negative feature, since it can disrupt routines, and it can be felt threatening by those who are directly affected by it. However, in the long-run, high levels of personal initiative is argued to lead to development of new ideas, more proficient production, improved service processes and increased success at implementing innovations, and eventually into a better performance. (Baer & Frese, 2003.) Psychological safety climate is affected by formal and informal procedures of the organization that support and guide trusting and openness in the interaction within the work environment. Therefore climate of psychological safety constitutes an environment in which employees are free to speak up their minds without the fear of being punished and thus are more likely to come forth with new ideas. (Baer & Frese, 2003.) However, they emphasize the notion that both of the aforementioned climate dimensions are necessary to implement process innovations to their full potential.

3.4 Leadership and corporate culture for innovation

According to literature, the aspect of leadership plays a crucial role in the context of forming and managing culture of innovation (Sarros et al., 2008; Schein, 1983; Schein, 2010). Ultimately, it is the leaders who bring their basic assumptions and initial values to the organization, which serve as a basis on which organization’s behavioral norms emerge in the work environment. The basic assumptions and behavioral norms can further be crucial determinants when deciding who gets recruited and promoted in the organization, thus conveying organizational priorities and values to the employees. (Schein, 1983.) According to Jassawalla and Sashittal (2002) the leaders, top
management and the physical environment in which employees find themselves, strongly affect the human interaction in an organization. Based on these interactions, the shared view of reality and shared value systems emerge, by which the employees can determine what kind of behavior and organizational objectives are valued. Schneider et al. (1994) explain that when employees of an organization perceive the values conveyed by the working environment, they direct their energies and competencies to match with their perceptions. These perceptions of the individuals constitute the climate of the organization, while innovation supportive climate is touted to be a crucial factor for improving individual creativity and implementation of innovations (Baer & Frese, 2003; Tesluk et al., 1997; Schneider et al., 1994).

As described by Schein (2010), one of the leaders’ main responsibilities is to monitor and change culture if it is deemed inefficient. Therefore leaders are responsible for managing and changing the corporate culture to be aligned with the organization’s business goals. However, changing the culture isn’t a simple task since leaders often struggle to identify the necessary dimensions that are linked with improved performance. Also the changes in organizational structure will be temporary unless accompanied with changes in culture. (Cameron & Freeman, 1985.) Schein (2010) argues that understanding the underlying assumptions embedded in the culture (See Fig 1.) will help the leaders when trying to understand and deal with the surface levels of culture. Cameron and Quinn (2011) explain that it is important for leaders to understand the dominant culture type(s) (See Fig 2.) in their organization and the level of how well they meet the requirements set by the competitive environment.

Based on the competing values framework (See Fig. 2), adhocracy culture is suggested to be the most prominent culture type for innovation focused organizations. This is due to its emphasis on individuality, risk taking, and its commitment to experimentation and innovation. (Cameron & Quinn, 2011). Greenberg and Baron (1997) suggest that corporate visions are conveyed to employees most efficiently by the top management with strong values and charismatic personalities. However, Cameron and Quinn (2011) explain that the most valued leadership style depends on the dominant culture type. For example, in adhocracy culture, Cameron and Quinn (2011) identified that the most valued managers are considered to be creative, innovative, risk oriented and focused on the future, in summary they are considered rule breakers. Thus based on their research, Cameron and Quinn state that the most respected leadership qualities are reflections from the organizations dominant culture types. Also interestingly, Cameron and Quinn (2011) identified that the most successful leaders had the skills to be able to succeed in all of the four major culture types, despite the contradictory requirements of the competitive values framework quadrants.

Despite the apparent superiority of adhocracy culture for achieving innovations, organizations rarely embody only one culture type (Cameron & Quinn, 2011). Schneider et al. (1994) explain that organizations often have different climates between different departments, whereas Schein (2010) notes that different departments may have different sub cultures, which can derive from varying occupational roles. According to research by Nystrom (1990) organizations may however benefit from strategy that separates sub cultures, such as focus on innovation, into more specific areas of an organization, where it is mostly needed. For example R&D units will benefit from having high levels of support for creativity and innovation, whereas in production, continuous alteration of manufacturing processes may instead serve to diminish the effectiveness of the unit (Nystrom, 1990). Therefore, the executives’ role is to understand if the sub cultures are in conflict or in balance, and align them in a way that ensures the long run profitability of the organization. In case where one of the sub cultures becomes too dominant, the organization will not be able to function properly, and eventually cannot survive. (Schein, 2010.)
4. Discussion

This thesis has focused on clarifying the aspects of organizational culture related to improved creation and implementation of innovations within organizations. The conducted literature review has raised many interesting considerations and brought up some deviations within the reviewed literature.

In the literature, innovation supportive culture is examined by multiple authors through multiple different viewpoints such as values and norms, climate, leadership and organizational change (Baer & Frese, 2002; Cameron & Quinn, 2011; Denison, 1996; Khazanchi et al., 2007; Schein, 2010), thus making the research area massive to examine as a whole. Despite the vast body of literature dedicated to the subject of organizational culture, the terminology and research approaches are found to vary significantly within the field of research, which has resulted in plethora of definitions for different aspects of organizational culture (Schein, 2010). Attempts to unify the field of research have been made by several authors such as Amabile (1988), Denison (1996), Schneider et al. (1994, 1996) and Schein (2010), in order to standardize the terminology and to provide frameworks for researchers. Nevertheless, organizational culture remains an ambiguous phenomenon, but its importance for organizations’ effectiveness and successfulness are real, thus making it an important, yet challenging subject for researchers.

Based on the competing values framework by Cameron and Quinn (2011), adhocracy culture type is suggested to be the most prominent culture type for organizations looking to be innovative. On the contrary, strict focus on hierarchy and rules is perceived to diminish creativity and frustrate attempts of innovation and change (West, 1990). However Cameron and Quinn (2011) note that effective organizations are found to embody features from all of the four dominant culture types. Similarly, Naranjo-Valencia et al. (2011) identified that the dominant characteristics of hierarchy culture are found to have positive effects on innovative, rather than imitative organizational behavior, which is in contrast with assumptions by Child (1973) and De Brentani (2001). Findings by Lewis et al. (2002) support this view by providing evidence that control values can provide necessary framework for supporting brainstorming and experimentation during product development.

Overall, recent literature seems to recognize the importance of hierarchy values in organizational innovation. However, the literature examined for this thesis is quite reticent to which extent hierarchy culture should be implemented in organizations in order to increase innovativeness, while not affecting negatively to creativity and innovation. Cameron and Quinn (2011) explain broadly that each organization should identify the current state of the organization’s culture, and come to a consensus on how culture needs to be changed. To complicate things further, Schein (2010) argues that the self-description questions, used to determine the culture type in competing values framework, are too simplistic to provide realistic results of organization’s culture. Furthermore, Schein (2010) argues that researchers need to get deeper understanding of the organizations culture, in order to determine which of the culture types would be the most useful for the organization.
Another interesting finding by Naranjo-Valencia et al. (2011) is that the management of workers, in cultures dominated by adhocracy, yielded negative results for innovation, which is in contrast with the assumption often found in the literature. They argue that this might result from the notion that adhocracy culture doesn’t foster team working, which is identified to be a key aspect for fostering creativity and innovation. These findings present interesting implications on clan culture’s adaptability for supporting innovation, since clan culture is explained to foster team working (Cameron & Quinn, 2011), thus implying longer work relationships between organization and employees. The longer relationships can be especially important for high-tech organizations seeking to maintain their intellectual capital. This aspect of innovation supportive culture requires more research in order to determine how beneficial features from clan culture, such as team working, could be fostered along with high focus on innovation from adhocracy culture.

In the literature, organizational climate is yet another subject that seems to raise debate about its importance to innovation and its importance to culture research in general. Denison (1996) explains that the terms organizational climate -and culture are often used interchangeably, though they are different concepts. However, significant amount of research by multiple authors such as Baer and Frese (2003), Schneider et al. (1994, 1996) and Tesluk et al. (1997) have specifically focused on examining the role of organizational climate in the innovation process. For example, Baer and Frese (2003) identified climate dimensions of initiative and psychological safety to be crucial aspects for successful process innovations. Schneider et al. (1996) argue that culture cannot be directly manipulated, but instead climate and tangible aspects such as processes and organizational practices, which comprise organizational climate, can be changed. Therefore they explain that organizational climate can be used as a medium to change organizations culture. The literature about organizational climate seems confident about the notion, that climate is indeed important aspect of organizational innovation. However quite troublingly, Cameron and Quinn (2011) state regarding the competing values framework, “We assess “how things are” in the organization rather than how individuals feel about them.” (p. 147), thus neglecting the aspect of organizational climate. These deviations raise suspicion about the comprehensiveness of the competing values framework approach. In agreement with Schein (2010), a much more open-ended, multidimensional approach is required when assessing and attempting to change organizations culture.

Overall, the reviewed literature seems to emphasize the importance of organizational culture for organizations seeking to be innovative. Embedding and fostering organizational values aligned with organizational goals and mission statement is explained to turn workers into intelligent action takers (Qubein, 1999). Embedding flexibility values can serve to provide individuals with freedom to experiment and be creative, whereas hierarchy values are identified to provide a framework for workers to experiment on, while sustaining managerial trust and stability (Khazanchi et al., 2007). Also organizational climate, and especially dimensions of initiative and psychological safety, were deemed to be crucial aspects for supporting process innovations (Baer & Frese, 2002). Similarly, Tesluk et al. (1997) emphasize that organizational climate can increase individual creativity by addressing five dimensions of organizational climate: goal emphasis, means emphasis, reward orientation, task support and socioemotional support. The literature also emphasizes the importance of leadership in managing and changing culture (Cameron & Quinn, 2011; Schein, 2010). According to Schein (2010) it is the leaders’ responsibility to monitor and change the organizational culture when
change is deemed necessary. Cameron and Quinn (2011), explain that organizations should identify the dominant culture types in their organizations in order to determine how well it matches with their business goals and environment. Overall, innovative values, innovation supportive climate, dynamic leadership and management of culture, will all need to be addressed, in order for organizations to truly reap the benefits of innovative culture.

The culture is all embracing aspect of the organization, and thus changing one aspect of culture will not be sufficient to create sustainable change (Schneider et al., 1996). The conducted literature can serve to provide overview of the aspects relating to organizational culture supportive. However, providing objective generalizations about which aspects of culture needs to change to achieve improved innovative capability, is extremely difficult, and can also cause pitfalls when applied in a unique organizational setting.
5. Conclusions and Limitations

This thesis has focused on organizational culture and especially on the association of innovation supportive culture as source of increased innovativeness in organizations. This thesis was conducted by reviewing central academic publications about the subject and selecting the topics that were identified to be related to culture supportive of innovation.

Due to globalization of markets, organizations are faced with increasing competition from around the globe (OECD, 2003). For organizations to participate in the global markets, innovation and risk-taking have become a necessity to succeed (Zahra, 1999). Organizational culture is recognized to be one of the most crucial factors contributing to organizations’ ability to generate and implement new innovations (Khazanchi et al., 2007). Despite the extensive research on the subject, big variation in the terminology and research methods exists, which have resulted in plethora of definitions and deviating opinions about different aspects of culture (Schein, 2010). This has served to complicate the field of research, and even today, the literature about organizational culture is somewhat incoherent.

In the literature, organizational culture is often examined through values, norms, organizational climate and leadership (Baer & Frese, 2003; Cameron & Freeman, 1985; Denison, 1984; Schein, 2010; Schneider et al., 1996). Jassawalla and Sashittal (2002) explain organizational culture as frame of reference that can guide actions of individuals in an organization. Further, Sadri and Lees (2001) explain that positive organizational culture can result in competitive advantage, whereas negative culture can diminish the effectiveness of the organization. Therefore, aligning organization’s culture to meet the demands of the business environment and the goal of innovativeness, can be beneficial for organizations (Khazanchi et al., 2007).

In general, creating and maintaining innovation supportive culture is no simple task. No off-the-shelf solutions exist that can be used to change the organizational culture to meet the demands of the changing business environment. Instead organizations are required to become more flexible, adaptable and innovative in order to remain competitive (Sarros, Cooper & Santora, 2008). For organizations to meet the demands of flexibility and adaptability, innovative values, innovation supportive climate, and dynamic leadership is required to realise these properties of culture (Baer & Frese, 2002; Khazanchi et al., 2007; Qubein, 1999). All in all, the leaders and managers of the organization are responsible for managing and changing the culture when it is deemed dysfunctional (Schein, 2010).

The conducted literature review raised some deviating implications regarding flexibility and hierarchy values. In accordance with suggestion by Khazanchi et al. (2007), an empirical research is suggested to shed light to which extent hierarchy values can be implemented in organizations, while not diminishing the innovative capacity. Another interesting find was the contradiction in the valuation of organizational climate between authors. Cameron and Quinn (2011) explain that organizational climate changes in a rapid pace and it wasn’t of concern in their competing values framework, and thus this aspect was left out. Whereas on the opposite, Schneider et al. (1996) explain that culture itself can’t be directly manipulated, but instead climate can be used as a medium to convey values and change culture in an organization. Thus additional research on the
practical applicability of the competing values framework is suggested. Lastly, further research is suggested to compare the requirements between different innovation types such as incremental and new product development, as it could provide an important framework to fill the gap in the existing innovation literature.

This thesis was limited to literature review, thus no empirical confirmation on the founded aspects of innovation supportive culture could be presented. Also due to the large scale of the research question, no division between different innovation types and their differences in optimal organizational culture features could be analyzed.
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