

The Role of Organizational Culture in Enhancing Innovation Potential. Consequences on the Market Performance of Romanian Firms

Cornel Ionescu

Institute of National Economy

Casa Academiei - Bucuresti, sector 5, Calea 13 Septembrie nr. 13, cod
postal 050711
caragea21@yahoo.com

Abstract

Organizational culture is the profound force that gives power to an organization. Managers influence organizational performance by optimizing processes, improving coordination between departments and between employees, by choosing appropriate strategies. Organizational culture identifies in purpose as a structural component of society, hence the role of the social action instruments and implicit the role of the state. The present article tries to identify the reserves of these entities in growing the market performance of companies in Romania.

Keywords: organizational culture, competitive advantage, entropic thinking

JEL classification: O10

Introduction

When we consider companies' market performance in the current international context we refer primarily not to profit maximization, but to achieving competitive advantage and transformung it into a strategic advantage (Dess, Lumpkin and Eisner, 2006).

The best way for a company to create and maintain a competitive edge is to create an organizational culture that encourages each employee to be consciously part of the values of the company. "The organizational culture represents all the values, symbols, rituals, ceremonies, myths, attitudes and behaviors that are prevailing within an organization, are delivered to the next generations as being the way of thinking, feeling and acting and which have a determinant influence on results and their evolution" (Roșca, C., & Istudor, N., 2016).

Developing competitive capacity and achieving strategic advantage are both based on innovation, the company's intangiblie resources and the use of competitive intelligence (Bratianu, 2007). In this respect the development of strategic management and its integration with operational management are crucial. Companies which implement an organizational culture that allows them to act strategically will have a considerable advantage over the others.

A new economy – the forth industrial revolution

The transition to the new digital industrial reality, characterized as the fourth industrial revolution is in full swing all over the world. Industrial companies digitize essential activities within their vertical value chain and also within the relationship with partners, horizontally. In addition, they improve their product portfolio by introducing digital features and innovative services. Specialists in the field are unanimous in the assessment that “The eight key technologies” which will have the largest effect on businesses worldwide in the near future are:

1. Artificial intelligence;
2. Internet of Things;
3. Augmented Reality;
4. Robots;
5. Blockchain technology;
6. Virtual reality;
7. Drones;
8. 3D Printing.

All this is based on the digital industry. The analysis and assesment of the impact of new technologies, as well as planning for their adoption, should be an essential part of the strategy of each company. Consequently, their management should find effective responses to at least three fundamental questions:

- Do we have strategies and processes for innovation?
- Did we quantify the impact of new technologies on business? If not, how can we do this and how fast?
- Do we have a plan for the adoption of new technologies? If so, it is updated?

All this and the related processes determine, nowadays, the need to review strategic socio-economic and human values and guidelines, not only at company level but at all organizational-decisional levels. We must bear in mind that this technological revolution is an important factor in tilting the balance in favor of the individual. This, in turn, determines the development and implementation of new approaches to economy and organizational culture at all levels. The option for development is vital and, as such, urgent and solutions are exceptional as they cannot violate the external context or the international legal regime of Romania. Policies and instruments available to the state must be used more efficiently in order to create a favorable environment for

increases in Romanian companies' competitiveness and achieving the Europe 2020 objectives, including: the single market, the EU budget (including the Regional Development Fund, Social Fund and Cohesion Fund) and foreign policy tools.

EU funding supports:

- creating more and better quality jobs
- development of new technologies
- advanced research
- access to high speed internet
- smart transport and energy infrastructure
- energy efficiency and renewables
- development of enterprises
- improvement of skills and vocational training

but the system of EU research is not necessarily concerned with promoting cooperation and transfer best practices in our country, (Goschin, Z., Sandu, S., and Goschin G., 2014).

Organizational culture and company performance

Organizational culture is comprised of three interrelated dimensions: a sociocultural system of operation for the strategies and practices of the organization, a system of organization values and collective beliefs of people working within the organization. Organizational culture is operationalized by several latent variables: organizational structure and purpose, organizational values, activity organization, climate and individual values and beliefs. These variables, in turn, affect organizational performance (Marcoulides G., Heck, R., 1993).

As stated by Hofstede (1986), culture depends on the one hand on the organization's history (natural factors) and on the other hand on the nature of the organization - the type of production, the manner of organization, the economic market (structural factors). Therefore, culture "looks" just like the organization "looks" and like the organization's past "looks". Organisations need a strong culture because it strengthens the strategy and the structure the organization needs in order to be successful in its environment. Organizational culture is the profound force which gives power to the organization. Managers influence organizational performance by optimizing processes, improving coordination between departments and between employees, by choosing appropriate strategies. At the same time, managers have a

“secret” weapon which influences organizational performance. It is not visible on the balance sheet, but it certainly influences the performance of the organization and its employees. It is the organization’s culture.

Although a final method of organizational cultures assessment hasn’t been developed yet, it is considered that a meaningful analysis can be done using the following features:

- individual initiative (the accountability and freedom of individuals);
- integration (the extent to which the organization subunits are encouraged to act in a coordinated manner);
- support provided to employees by managers;
- identity (the extent to which employees identify with the organization);
- time management;
- rewarding criteria (such as employee performance or favoritism);
- attitude towards risk (the degree to which employees are encouraged to be innovative and take risks);
- attitude towards conflict (the degree to which employees are directed towards open criticism and the manner of resolving conflicts);
- communication patterns (restricted to formal hierarchy or not);
- control (number of rules, the scale of employee direct supervision).

How do we grow the performance of Romanian companies?

It is more than obvious that the status of individuals, firms and countries will increasingly depend on the level of education. Education is the engine and the way in determining the future.

The problem which needs an answer from the perspective of Romanian companies is: how do we achieve competitive advantage and how do we turn it into a strategic advantage in order to increase the performance of Romanian companies? What should company managers do and how should the state (government) be involved in this process?

It is well known that “the competitive advantage of companies in today’s economy lies not in their position on the market, but on the development of knowledge as intangible resources which are hard to replicate and on their manner of usage. The size of the allocation and their usage - involving both strategic and entrepreneurial elements - is actually the dimension in which company’s dynamic capabilities are very important “(Teece, 2004, p.137).

Dynamic capabilities theory (DC) was developed by Teece & Pisano, (1994) “subset of skills / capabilities that allow the company to create new products and processes in order to respond to market changes.”

Dynamic capabilities theory is suitable for the study of organizational innovation, which facilitates the development of a holistic model of organizational innovation. Process innovation can refer just as well to the development of new production technologies for new processes, systems or even business models. In addition, the requirement of asset heterogeneity reflects the expectation that there is no generic formula of innovation capability (Tidd et al, 1997). DC dynamic capabilities facilitate innovation and adaptation (Rothaermel and Hess 2007) and are fundamental to a more competitive society (Collis, 1994). Eisenhardt defines dynamic capabilities as specific and identifiable processes, such as product development, strategy and joint decision making. The author argues that they are not sources of long-term competitive advantage because they are not necessarily rare, inimitable and non-substitutable. However, long-term competitive advantage can be achieved by using dynamic capabilities, more astutely or more diligently than competition in order to create resources with a long-term competitive advantage. Such an advantage is rarely achieved on dynamic markets. Therefore, especially on dynamic markets, dynamic capabilities can be important because businesses may be able to compete by creating a series of temporary competitive advantages (Eisenhardt and Martin, 2000).

Based on these considerations, during March 2016 I conducted a survey on a sample of 2,000 company managers from Romania. In order to analyze the problems considered, a questionnaire was applied to this sample. The questionnaire was comprised of 59 questions referring to their companies' activities.

Of the 2,000 people contacted, 290 responded favorably to the survey request, representing a response rate of 14.5%, which I appreciate as very good for this type of online research.

Among other hypotheses, I wanted to see if there is a direct and significant connection between innovation capabilities and the performance of companies in Romania. To measure the concepts included in the survey I used Liao and Chen's (2006) measurement scales for innovation capabilities, while for performance measurement I used McDougall et al. (1994) scale.

Univariate descriptive analysis

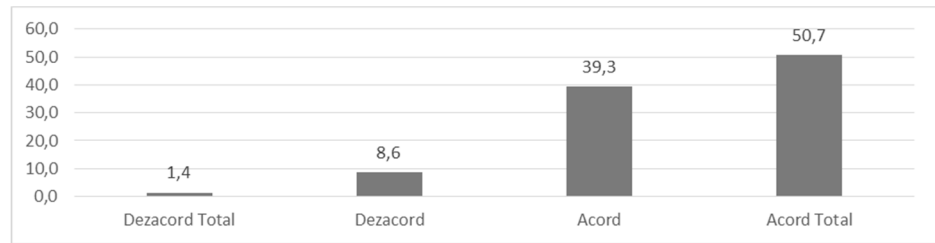
After the validation, centralization and systematization steps have been completed, the final size of the sample was 290 respondents, consisting of 53.1% people in top management (e.g. CEO, Director), 31% people in middle management (e.g. Manager) and 15.9% persons occupying another position in the company. Most respondents (42.1%) come from large firms with over 249 employees, 29.7% of medium-sized companies (50-249 employees), 20.7% of small businesses (0-49 employees) and 7.6% of micro-enterprises. Regarding the respondents' companies' field of activity, the most common (31.4%) is "other activities and / or services", 20.3% come from commerce companies and 22.8% come from manufacturing (production). The majority of companies activate more in Romania (57.9%), 31.7% are both in Romania and on foreign markets, while only 10.3% work more on foreign markets, as it can be seen in Table 1.

Occupied Position	%	Company Size	%	Field of activity	%	The market on which the company operates	%
Top management (e.g CEO, Director)	53.1 %	Large firm (> 249 employees)	42.1 %	Commerce	20.3 %	The company operates both in Romania and foreign markets	31.7%
Middle management (e.g Manager)	31.0 %	Medium-sized firm (50-249 employees)	29.7 %	IT&C	6.9 %	The company operates mostly in Romania	57.9%
Another position	15.9 %	Small firm (0-49 employees)	20.7 %	Constructions	10.3 %	The company operates mostly on foreign markets	10.3%
		Micro-enterprise (0-9 employees)	7.6 %	Manufacturing	22.8 %		
				Transport and Warehousing	1.0 %		
				Financial services	7.2 %		
				Other activities and / or Services	31.4 %		

Table 1. The structure of the research sample

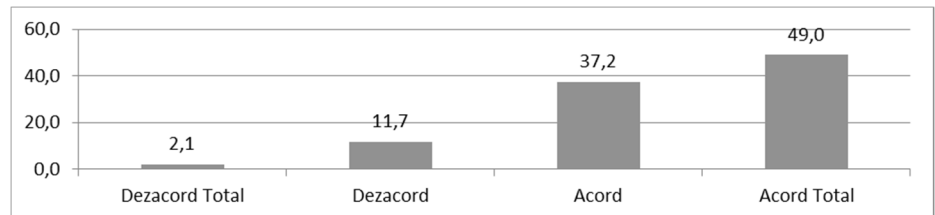
Fig. 1.
Managers consider the ability of their company to learn as the key to competitive advantage

Most respondents (as reflected by fig.1) agree with the statement that managers consider the ability of their company to learn as the key to competitive advantage (50.7% strongly agree, 39.3% agree), while only 10% disagreed with the same statement (strongly disagree or disagree).



Respondents also agreed (as reflected by fig.2) that one of the core values of their company is learning - as an important element of continuous improvement: 49% strongly agree, 37.2% agree. Only 11.7% disagree and 2.1% strongly disagree.

Fig. 2.
One of the core values of the company is learning



Moreover, the majority of people who participated in the research agree that employee development is an investment, not a cost for the company (48.6% strongly agree, 33.4% agree, 14.1% disagree, 3.8% strongly disagree) and that learning is seen as a key activity necessary for the survival of the organization (41.7% strongly agree, 39.0% agree, 15.9% disagree, 3.4% strongly disagree).

Also regarding the statement “The culture of our company implies that learning and the development of our employees is a top priority”, most respondents did either strongly agree with it (36.9%) or agreed (41%), while only 17.6% disagreed and 4.5% strongly disagreed.

For the statement “In our company, there is a perception that if we stop learning we jeopardize the future of the organization”, the answers were not so categorical inclined toward agreement or total agreement. Thus, although 31% of respondents fully agreed with the statement and

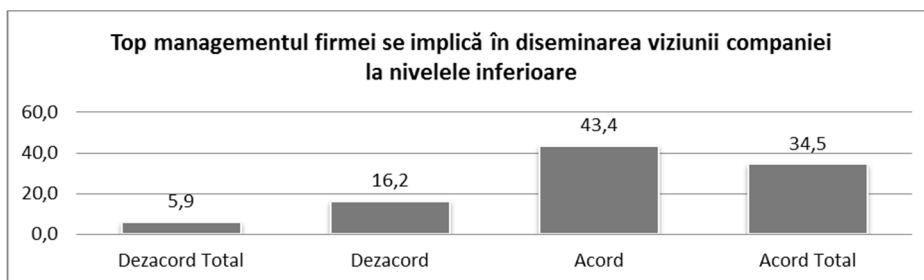
37% agreed, 24.1% were in disagreement, while 5.9% strongly disagreed.

On the other hand, there seems to be an agreement among respondents regarding the statement “In our company, there is a clear concept of who we are and where we are headed as a company”: 43.8% strongly agree, 39.3% agree, 14.5% disagree and 2.4% strongly disagree.

Also regarding the statement “There is a clear agreement on the vision of our company across all departments”, most respondents agreed with it (46.9%), 26.2% were in total agreement, while 32.1% disagreed and 3.8% strongly disagreed. Similar percentages were recorded by the statement regarding employee motivation and involvement in achieving objectives. Thus, 15.9% strongly agreed with the fact that employees are motivated and dedicated to achieving corporate objectives, 52.8% agreed, while 27.2% expressed their disagreement and 4.1% strongly disagreed. Also regarding employees, most respondents believe that they rather consider themselves partners in achieving company objectives (9.7% strongly agree, 49.7% agree), while 32.1% disagree with the statement and 8.6% strongly disagree.

Most of the top management respondents (as reflected by fig.3) agree that they are engaged in disseminating company’s vision at inferior levels: 34.5% strongly agree, 43.4% agree, while 16.2% did not agree, namely 5.9% strongly disagreed.

Fig. 3.
Top management is engaged in disseminating company’s vision at inferior levels



The majority of the surveyed people also agreed that the companies they work for have a clearly defined business vision: 41.4% strongly agree, 44.1% agree, however only 11% did not agree with this statement and 3.4% were in strong disagreement. Another claim that they have agreed with is: “We are not afraid to criticize the way in which we operate, if needed”. 45.2% of respondents were in strong agreement with this

statement, 41% in agreement, while 9.3% did not agree, and 4.5% strongly disagreed.

Moreover, it seems that respondents largely agree with the statement “The managers of the firm accept to have their vision on our activity debated” (32.4% strongly agree, 48.6% agree, 15.2% disagree, 3.8 % strongly disagree) as well as with the fact that top management appreciates open thinking (50.7% strongly agree, 36.6% agree, 8.6% disagree, 4.1% strongly disagree) or with the fact that managers encourage employees to think creatively (47.2% strongly agree, 36.2% agree, 13.4% disagree, 3.1% strongly disagree).

As for continuous innovation, respondents agree that this is part of the organizational culture of their company (36.9% strongly agree, 40.7% agree) as well as with the fact that original ideas are appreciated within the company (50% strongly agree, 35.5% agree), or that they are daily searching for relevant information about the industry in which the company operates (47.2% strongly agree, 34.1% agree). Related to this, it appears that management motivates employees to use sources of information related to their industry (37.6% strongly agree, 41% agree) and more than that, it expects employees to manage information even outside the sphere of their industry (25.9% strongly agree, 50.7% agree).

Ideas and new business concepts are communicated across all departments of the analyzed companies, 64.5% of respondents agreeing with this (21.7% strongly agree, 42.8% agree), and management encourages collaboration between departments to solve problems (51.4% strongly agree, 36.6% agree). In addition, within the company there is a rapid flow of information (28.6% strongly agree, 45.2% agree) and management requires regular inter-departmental meetings for sharing information, discussing issues and presenting achievements (36.9% strongly agree, 40% agree).

Respondents consider that company employees have the ability to structure and use the information and knowledge they accumulate (20% strongly agree, 59.3% agree) and that they are used to absorb knowledge and information, structure and put them at the disposal of the organization (14.8% strongly agree, 53.4% agree) succeeding, at the same time, to make the connection between the knowledge they have and new acquired information (17.2% strongly agree, 65.2% agree). Moreover, employees are able to apply the new things learned in their everyday work (23.4% strongly agree, 59.3% agree).

Regarding new technologies, respondents believe that management supports the development of prototypes (25.9% strongly agree, 42.4% agree) and company technologies are constantly updated (29.7% strongly agree, 47.9% agree), as well as that the company has the ability to be more efficient through the adoption of new technologies (32.1% strongly agree, 45.9% agree).

An interesting fact is that respondents mostly agree that their company can change the division of labor in different departments depending on the needs of the market (22.1% strongly agree, 51% agree), as well as that department managers update their leadership style and methods in order to achieve the objectives (18.6% strongly agree, 50% agree). 70.7% agree that employees can effectively benefit from incentives and bonuses while 71% believe that their companies have a financial management system which provides clear information about the discrepancy between performance and objectives. In addition, 69% believe that their company focuses in recruiting on the creativity and innovation capabilities of new employees, while 63.4% believe that the recruitment system of new staff is efficient and effective, and 66.9% trust their company has a performance evaluation system which contributes to obtaining a clear picture about the capabilities and performance of employees in achieving goals.

Empirically observed data were confirmed. There is a direct and significant connection between innovation capabilities and company performance. The analysis of standardized coefficients of the direct effect indicate a significant and strong connection (1.58, $p = 0.000$) between innovation capability and company performance.

Conclusions and proposals

For management

We believe that management knows the capabilities that give companies value and that they pay attention to them.

The outcome of this research is not representative for all companies in Romania, but the study findings are an important starting point for further research and a strategic source of information for companies and government institutions involved in innovation policies.

In addition, we wish to reiterate the main ideas that must accompany managers permanently in their entrepreneurial activity in order to be competitive.

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- Knowledge is equivalent to a resource and, therefore, should be converted to a capacity;
 - Technological innovation management is one of the biggest challenges today;
 - Innovation capability is one of the most important dynamic capabilities which represents the dominant source of competitive advantage;
 - Developing an innovation strategy is one of the most important strategic issues;

Managerial performance depends directly on the performance of the model of thinking, and thinking which gives full satisfaction is entropic thinking - In real life, processes are irreversible. Irreversibility introduces a time axis, oriented from past to present and future.

Time is a fundamental variable characterized by duration and direction of processes evolution. Hence, entropic thinking is a forward-oriented thinking, focused on achieving objectives (Economic entropy was explained in the book *The Entropy Law and the Economic Process* published in 1971 by Nicholas Georgescu-Roegen, founder of bioeconomic theory. Nicholas Georgescu-Roegen stated that “The economic process is clearly entropic, not mechanistic. And because the law of entropy dominates all material changes, this process develops in an irreversible manner. Resource depletion cannot be controlled and a good deal of waste remains unusable waste. This simple statement contains the seed of “scarcity” seen from a global ecological perspective.”).

For the state

Regarding the state (government), it must prove that it understands human capital is the vector of change towards a new vision and the main strategic resource for development. The state and its institutions they serve man. It is important that the individual be placed in the center and to be the recipient of this system. Do not forget that institutions are made up of people, not people in institutions. When people, as individuals, are strong, free, and then institutions will be strong.

National solutions are specific to states with a development objective and imply strengthening national state intervention functions to support development through industrialization and education. The national solution has as possible components:

- Internal resources, natural and financial;

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- Conditional use of foreign capital;
 - Development of young industries, generators of competitiveness niches;
 - State intervention / protection;
 - budget deficit to the extent permitted by the supplementation of development investment sources;
 - Using inflation in margins implied by boosting the costs of development investments;
 - The formation and strengthening of economic and administrative elite.

An important role belongs to the State in the review and correlation of the rules of collective action, which gives protection to the efficient cooperation of specialized individuals (due to division of labor), and which presents consistency deficiencies due to a prolonged transition and some systemic changes. This action must consider both the implementation of the government program and the progressive formalization of internal relations in order to increase efficiency and ensure solidarity to a common value system. The complexity of this action requires a strong organizational culture and a systemic vision taken into account that all structural levels of society are interdependent both causal and functional. We need to know what unites us, what are our values. For example, according to France Press, President Trump's counselor welcomed the emergence of a new "economic nationalism". "A new political order is about to emerge" said Stephen Bannon during the Conservative Political Action Conference in 2017. "But the soul of our beliefs is that WE ARE A NATION FIRST, NOT AN ECONOMY INSERTED IN THE GLOBAL ECONOMY WITH OPEN BORDER," he said. "We are a culture and a way of being. This is what unites us," added Bannon.

The state must promote the exercise of freedom, the conscience and love for the country.

Romania can openly play the complience book to the global context favorable to those able to rely on strategic solutions, but informally, as a commitment of the elites, to resort to the reconstruction of the revival framework of the national development forces, above everything else being the national capital. The unprecedented development of information technologies allow for the growth of state power. It must be used intelligently for development, for creating a predictable future

which will enable us to respond and to find solutions to the great challenges which the society already began to face.

Romanian recapitalization targets should start from the recovery of financing potential through its own banks, and then to restore the industrial potential, including through agency allocation for research funding to support non-standard initiatives of creating industrial productive capacities.

Rethinking the education system is also a key strategic objective. Today, in the Romanian education curricula there is no discipline which deals with the topic of innovation, there is no entrepreneurial orientation of knowledge and there are major gaps between the needs of companies and the educational offer of the national education system. Innovation can not be done nationwide without a careful consideration of the training environment of researchers and employees.

It is essential to understand that the evolution of society is sustained by creativity, intelligence and motivation and that **organizational culture** is the glue of that process.

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