

# THE MEDIATING ROLE OF ORGANIZATIONAL INNOVATION BETWEEN ORGANIZATIONAL CULTURE AND SMEs PERFORMANCE IN JIANGXI PROVINCE, CHINA

Si Chen<sup>1</sup> & Niyom Suwandej<sup>2</sup>

<sup>1,2</sup> College of Innovation and Management, Suan Sunandha Rajabhat University, Bangkok, Thailand.

E-Mail: 530626352@qq.com<sup>1</sup>, niyom.su@ssru.ac.th<sup>2</sup>

## Abstract

Small and medium-sized enterprises (SMEs) are constantly developing and expanding, and have become the largest main body of the market economy and the most dynamic group of enterprises. Researchers have conducted extensive research on the factors that affect corporate performance, and organizational culture is a set of shared values and norms that govern internal and external interactions within an organization. It guides behaviour and performance and is a key element in the integration of intangible assets that influence thinking, behaviour and production, making it an essential part of business operations. Organizational culture has a positive impact on SMEs performance and organizational innovation significantly improves and mediates organizational performance. The aim of this study is to empirically examine the relationship between organizational culture and SMEs performance in Jiangxi Province, China and the mediating role of organizational innovation in it. The results of this study can explain important variables affecting organizational development and provide guidance for SMEs development in China by integrating the factors affecting SMEs performance and constructing a model of the relationship between organizational culture, organizational innovation and SMEs performance.

**Keywords:** Organizational Culture, Organizational Innovation, SMEs Performance

## Introduction

How small and medium-sized enterprises can break through development difficulties, achieve sustainable and healthy development, continuously improve competitiveness, and effectively explore how to achieve high organizational performance is one of the key factors and the core of business management. Despite the continuous development and growth of small and medium-sized enterprises in Jiangxi Province, China, which have shown a good development trend, there are many problems in the development process of small and medium-sized enterprises in Jiangxi Province compared to other provinces due to various factors. There are deficiencies in organizational culture construction, innovation capabilities, and new technologies.

Organizational culture is a key element in integrating intangible assets of an organization, influencing thinking, behavior, and the production of goods or services, making it an important component of business operations (Orozco Arias & Anzola Morales, 2023). Scholars have conducted various studies on organizational culture based on four dimensions: Involvement, Consistency, Adaptability, and Mission. Mission is a shared future vision that everyone within the organization should pursue. Adaptability involves listening to external needs and trends, while Involvement involves cultivating a sense of ownership and commitment. Consistency includes managing internal communication, protocol issues, and coordinating actions based on mission and shared values (Brooks & Kabigting,

2019). Organizational innovation is the result of organizational practices and driving factors implemented by the entire organization, and is associated with new products, services, technologies, organizational structures, and membership plans (Dani & Gandhi, 2022). (Awais et al., 2023) Three types of innovation have been identified: product/process, technology, and management innovation, which are typically created or adopted at the business unit or organizational level as they are widely recognized in relevant literature. Organizational innovation has a significant impact on organizational performance, indicating that small and medium-sized enterprises with innovative capabilities can improve organizational performance (Lisa, 2019). This study explores the underlying reasons from the perspective of small and medium-sized enterprises themselves. By studying the relationship between organizational culture, organizational innovation, and organizational performance of small and medium-sized enterprises in Jiangxi Province, it emphasizes the mediating role of organizational innovation, constructs a model framework, and proposes relevant insights to promote the release of their potential and improve organizational performance of small and medium-sized enterprises.

### **Objective**

This paper investigates the important factors affecting the performance of SMEs in Jiangxi Province and constructs a relationship model between organizational culture, organizational innovation and SMEs performance, extending previous empirical research that executives and policy makers should pay attention to corporate culture and organizational innovation to improve efficiency and maintain competitive advantage.

## **Literature review and hypothesis development**

### **Organizational Culture**

Organizational culture refers to the shared beliefs and values within an organization (Tsait, 2019). These beliefs and values are conveyed through various channels, shaping employees' perceptions and behaviors, which is a key human resource management issue that affects the success and sustainable development of the company (Jigjiddorj et al., 2021). Various studies have been conducted on organizational culture based on four dimensions: Involvement, Consistency, Adaptability, and Mission. Involvement includes authorization, team orientation, and capability development; Consistency includes core values, coordination, and synthesis; Mission includes vision, goals, strategic direction, and intent; Adaptability includes organizational learning, customer orientation, and creating change (Fang.J, 2013). (Nowak & Pawłowska-Nowak, 2023) Organizational culture is examined in terms of four dimensions: clan culture, adhocracy culture, hierarchy culture and market culture. clan culture focuses on stability and control, internal affairs and integration, while avoiding positioning and diversity in the environment, which is common in locally run small businesses. The adhocracy culture focuses on development, mobility and constant change. hierarchy culture focuses on stability and control, internal affairs and integration, but focuses on positioning and diversity in the environment. It is characteristic of large firms operating in an international business environment and is characterised by a high degree of bureaucracy and formalism. market culture is characterised by stability and control, focusing on sales activities and primarily improving sales performance. (Esaulova et al., 2019) Organizational culture promotes the values of constantly updating, expanding, and searching for the knowledge required for complex analytical work. This culture creates an atmosphere of creative innovation and captures signals of regular activation of knowledge energy from the external environment. (Campbell, 2009) Explored how to create a successful organizational culture. A successful organizational culture refers to an organizational culture that can sustain current innovation while constantly changing according to market demand. An organization must

maintain a culture, create an environment that promotes harmony and meaningful activities among employees, while providing services and products to the entire community.

The Denison model of organizational culture emphasizes four key characteristics that an organization should master in order to be effective: mission, adaptability, involvement, consistency (Denison, 2016). This study takes this as a reference to explore the impact of organizational culture characteristics in these four dimensions on the performance of small and medium-sized enterprises.

### **SMEs Performance**

Defining enterprise performance from a visual perspective of the process, (Seppa et al., 2021) Organizational performance is the individual's performance of the company they manage, which is a combination of skills and actions to achieve optimal results. Studying organizational innovation from a results perspective, (Lu, 2021) Performance is used to describe the level of achievement of a company after adopting a certain strategy and implementing a certain activity, and is one of the key indicators used to evaluate the effectiveness of corporate behavior. (Chan et al., 2023) Using financial and non-financial indicators to measure organizational performance, including return on equity, earnings per share, sales growth rate, and market share, with the former being objective and the latter being subjective. (Zhixiong, 2022) Corporate performance is divided into financial performance and non-financial performance, measuring dimensions such as sales growth rate, market share, profitability, product satisfaction, corporate reputation and image. (Angelopoulos & Pollalis, 2021) Explored the impact of successful lean management on the performance of Greek public utility organizations (environmental performance, financial performance, operational performance). The factors that affect organizational performance are mainly divided into external environmental factors and internal organizational factors. From external factors, (Ngo & Ha, 2024) Studied the impact of political relations on the performance of Vietnamese enterprises under market competition and institutional conditions. A data survey of 500 small and medium-sized enterprises shows that political relationships have a positive impact on firm performance when controlling for firm and industry effects. From an internal perspective, (Bogetoft et al., 2024) The performance of manufacturing firms is analyzed using a panel dataset of over 15,000 observations. It identifies pure product, process, organizational and marketing innovations and their combinations. It found that firms using a combination of product and other types of innovation strategies had the highest growth in performance, and that pure process innovation firms had the strongest ability to catch up. Due to the difficulty of obtaining objective operating data for enterprises, and due to the fact that different industries have different financial accounting treatments and different payback periods, which can result in enterprises adopting different standards for cost and revenue data, the objective operating data of enterprises in different industries are not conducive to cross-industry comparisons. Therefore, the performance measurement of enterprises in this study is carried out by means of subjective evaluation. (Guang, 2020) There is a significant positive correlation between firms' objective performance and subjective performance evaluation, and firm performance can be measured using subjective performance evaluation data, a subjective measure usually described as a comparison with competitors, which evaluates firm performance perceptually rather than including specific numerical values.

### **Organizational Innovation**

Organizational innovation is the process by which an organization integrates resources to acquire new technologies or management methods, and is a holistic approach (Cha Boya, 2022). (Alateeg & Alhammadi, 2024) In today's fast-paced business environment, organizational innovation plays a key role in driving sustainable growth and

competitiveness.(Alharbi et al., 2019) Organizational innovation involves the production, adoption and use of value-added novelty in the social and economic spheres to update or add to services, products or markets, and is a comprehensive process that enhances markets, ideas, behaviours and other aspects that benefit the organization. It involves the regular transformation of ideas and knowledge into new services, processes or products for the benefit of stakeholders.(Awais et al., 2023) Three types of innovations were identified: product/process, technological, and managerial innovations that are typically created or adopted at the business unit or organizational level because they are widely recognized in the relevant literature.(Lisa, 2019) Product innovation involves customer function or form, process innovation involves product development, production, and preparation, and procedural innovation involves integrating products and processes into an organization's operations and improving marketing and management methods.(Rahmah et al., 2020) A research model using a balanced scorecard focusing on the aspects of growth, learning and organizational innovation is presented. It examines the relationship between organizational innovation (product, process and management) and organizational learning.

### **Relationship between Organizational Culture and SMEs Performance**

Organizational culture is an important soft system tool that influences decision making, leadership development and human resource planning. It positively affects employees' attitudes, perceptions, ethical behaviour, career satisfaction, job satisfaction and engagement, enhancing organizational performance and competitiveness in the long run (Wahyuningsih et al., 2019).(Cui, 2023) Organizations can improve performance by establishing a corporate culture that meets their needs, which requires the active involvement of leaders and effective strategic arrangements. Understanding the impact of corporate culture on performance can help develop effective business strategies and improve efficiency.(Ali, 2024) Organizational culture has a significant impact on performance, indicating the importance of values, norms and practices in shaping employee performance.(Abawa & Obse, 2024) Data were collected from 204 respondents of Oromia Cooperative Bank, Ethiopia. Structural equation modelling (SEM) revealed significant indirect effects of organizational culture on performance.(Bashayreh, 2018) One of the greatest obstacles to business performance is cultural differences. The study investigated the effect of organizational culture on performance in Ilorin, Nigeria. The study found that innovation significantly affects service quality while decision making significantly improves service quality. The study suggests that a positive and productive organizational culture that promotes innovation and decision making is essential for improved performance. The findings of the study suggest that Organizations should focus on creating a culture that promotes innovation and decision making to improve service quality.(Asif & Sajjad, 2018) The study investigated the dominant type of culture and its impact on performance in SMEs in Pakistan. Employee data was collected through a questionnaire. The results indicate that there is a significant relationship between organizational culture and performance and that organizational culture guides effective decision making and improves the organizational ability to make corrections and adapt to change. Identifying cultural strengths and weaknesses that hinder market performance is crucial for organizations to improve their performance.The main focus of the study was on the organizational culture of SMEs rather than corporate or national culture.

Although, there are more studies on the relationship between organizational culture and organizational performance, they focus to a large extent on corporations or large enterprises, and research on SMEs lacks universality. Small and medium-sized enterprises (SMEs) are very important market economies and occupy an important position. China attaches great importance to the development of SMEs and has introduced a series of policies to support the development of SMEs. This paper conducts research on SMEs, by integrating important

factors affecting SMEs' performance, constructing a research model, and exploring the impact of organizational culture on SMEs' performance through the mediating role of organizational innovation, using Jiangxi Province in China as the research object. However, organizational innovation, as a mediating variable between organizational culture and SMEs Performance, is a relatively scarce area of research, and the main contribution of this paper is to fill this gap, which is of value to the development of SMEs in Jiangxi Province, China, as well as in other provinces.

### Development of Hypothesis

By reviewing existing literature and related research, the variables are summarized as follows. The independent variable is organizational culture, which consists of four indicators: 1. Involvement, 2. Consistency, 3. Mission, and 4. Adaptability, which are comprehensively assessed. The mediator variable is organizational innovation, which contains three indicators: 1. Product innovation, 2. Process innovation, 3. Administrative innovation, which are comprehensively assessed. The dependent variable is SMEs Performance which involves two indicators: 1. Financial performance, 2. Market performance. The relationship between all the variables is based on these nine dimensions of the study conducted. The hypothetical development is as follows:

Hypothesis 1: Organizational culture positively influences SMEs performance.

Hypothesis 2: Organizational culture positively influences organizational innovation.

Hypothesis 3: Organizational innovation positively influences SMEs performance.

The hypothesis framework of this study is shown in Figure 1.

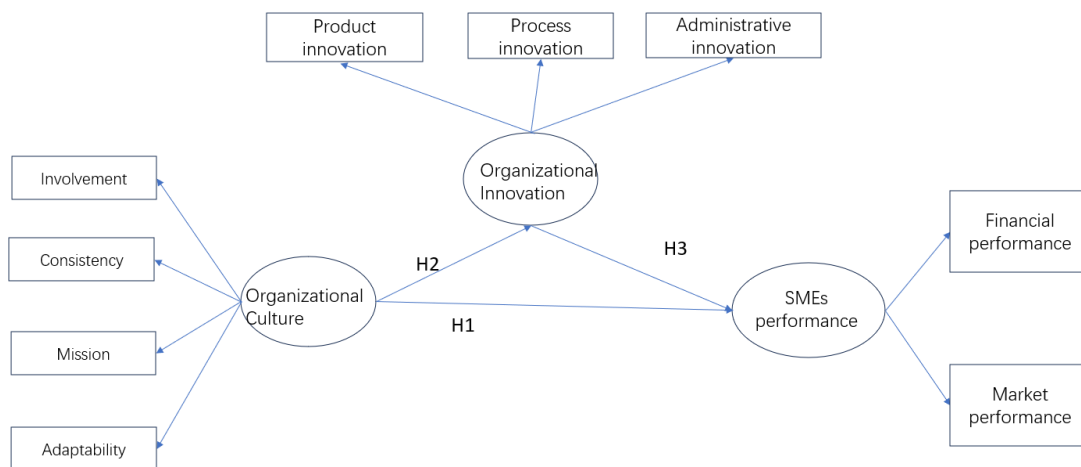


Figure 1. Research hypothesis framework.

## METHODOLOGY

This study adopted an empirical research methodology. The data collection methods and instruments employed included questionnaires, interviews and case studies, and the research methods used were qualitative and quantitative research methods. The main data was collected from owners, managers, and employees of small and medium-sized enterprises in Jiangxi Province, China. To ensure a comprehensive understanding of the relationship between organizational culture, organizational innovation, and SMEs performance.

### Sub-Section 1

By distributing survey questionnaires, data were collected on the independent variables organizational culture (including Involvement, Consistency, Mission, Adaptability)

and dependent variables SMEs performance (including Financial performance and Market performance), as well as data on the mediating variable organizational innovation (Product innovation, Process innovation, Administrative innovation). The variables were analysed quantitatively through the data from the questionnaire.

### **Sub-Section 2**

In the qualitative study, information was collected through in-depth interviews with 25 owners, managers or staff members of SMEs in Jiangxi Province, China, to analyse the research model and to validate the relationship between organizational culture and SMEs performance, as well as the mediating role of organizational innovation.

## **CONCLUSION AND FUTURE WORK**

This study constructed a model of the relationship between organizational culture, organizational innovation and SMEs performance. The positive impact of organizational culture on SMEs performance and the mediating effect on organizational innovation were analysed. This has practical implications for the development of SMEs, which are currently in a real turmoil, and also provides reference value for managers of SMEs on how to improve their performance. Managers can gain managerial insights from the conclusions of this study, and managers have an important role to play in shaping the organizational culture, encouraging organizational innovation, and creating an environment more conducive to the development of creativity. Future research could expand the study area and field, for example studying other provinces in China, and could also use more data and a wider range of firms to study the link between organizational culture and firm performance.

## **ACKNOWLEDGEMENTS**

I sincerely thank Suan Sunandha Rajabhat University for their valuable assistance throughout the entire research process.

## **REFERENCES**

- Abawa, A., & Obse, H. (2024). Organizational culture and organizational performance: does job satisfaction mediate the relationship? *Cogent Business and Management*, 11(1). <https://doi.org/10.1080/23311975.2024.2324127>
- Alateeg, S., & Alhammedi, A. (2024). *The Impact of Organizational Culture on Organizational Innovation with The Impact of Organizational Culture on Organizational Innovation with mediation role of Strategic Leadership in Saudi Arabia*. January. <https://doi.org/10.18576/jsap/130220>
- Alharbi, I. B. A., Jamil, R., Mahmood, N. H. N., & Shahrour, A. M. (2019). Organizational Innovation: A Review Paper. *Open Journal of Business and Management*, 07(03), 1196–1206. <https://doi.org/10.4236/ojbm.2019.73084>
- Ali, U. (2024). *FINAL PROJECT IMPACT OF ORGANIZATIONAL CULTURE ON ORGANIZATIONAL PERFORMANCE FOR NESTLE*, Department of Management Sciences, Virtual University of Pakistan. February.
- Angelopoulos, M. K., & Pollalis, Y. A. (2021). The Impact of Lean Transformation on the Organizational Performance: The Case of Public Utilities in Greece. *Open Journal of Applied Sciences*, 11(06), 684–698. <https://doi.org/10.4236/ojapps.2021.116050>
- Asif, M., & Sajjad, W. (2018). Organizational Culture and Performance: An Empirical Study of SMEs in Pakistan. *Journal of Management and Research (JMR)*, 5(2), 2018.

- Awais, M., Ali, A., Khattak, M. S., Arfeen, M. I., Chaudhary, M. A. I., & Syed, A. (2023). Strategic Flexibility and Organizational Performance: Mediating Role of Innovation. *SAGE Open*, 13(2), 1–17. <https://doi.org/10.1177/21582440231181432>
- Bashayreh, A. M. (2018). Organizational culture and organizational performance. *Contemporary Knowledge and Systems Science*, June, 50–69. <https://doi.org/10.4018/978-1-5225-5655-8.ch003>
- Bogetoft, P., Kroman, L., Smilgins, A., & Sørensen, A. (2024). Innovation strategies and firm performance. *Journal of Productivity Analysis*. <https://doi.org/10.1007/s11123-024-00727-1>
- Brooks, D., & Kabigting, F. (2019). *The Denison Organizational Culture Survey (DOCS): A Culture Measurement Critique Running Head: DOCS: A CULTURE MEASUREMENT CRITIQUE A Culture Measurement Critique Jun Kabigting Larissa Loures Dilys Brooks Claremont Graduate University. October 2020*, 0–17. <https://doi.org/10.13140/RG.2.2.24995.68643>
- Campbell, R. J. (2009). Creating a winning organizational culture. *Health Care Manager*, 28(4), 328–343. <https://doi.org/10.1097/HCM.0b013e3181bde32>
- Cha Boya. (2022). Research on the Relationship between Knowledge Search and Organizational Innovation——The Mediating Role of Ambidextrous Learning. *Master's Thesis, Shanxi University of Finance and Economics*. <https://doi.org/https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD202202&filename=1022580040.nh>
- Chan, D. W. M., Sarvari, H., Golestanizadeh, M., & Saka, A. (2023). Evaluating the impact of organizational learning on organizational performance through organizational innovation as a mediating variable: evidence from Iranian construction companies. *International Journal of Construction Management*, 0(0), 1–14. <https://doi.org/10.1080/15623599.2023.2239486>
- Cui, L. (2023). The Organizational Culture and Organizational Performance of The Construction Industry in Jiangsu. *Frontiers in Business, Economics and Management*, 11(1), 228–235. <https://doi.org/10.54097/fbem.v11i1.12039>
- Dani, M. V., & Gandhi, A. V. (2022). Understanding the drivers of innovation in an organization: a literature review. *International Journal of Innovation Science*, 14(3–4), 476–505. <https://doi.org/10.1108/IJIS-10-2020-0201>
- Denison, D. R. (2016). Introduction to The Denison Model. *Denison Consulting LLC. Www.Denisonconsulting.Com*, Page 1-36.
- Esaulova, I., Semenova, I., & Molodchik, N. (2019). *The Impact of the Organizational Culture on the Employee Proactivity: Empirical Study in Innovation Oriented Companies*. 240(Sicni 2018), 455–460. <https://doi.org/10.2991/sicni-18.2019.92>
- Fang, J. (2013). Research on the Impact of Construction Project Owner's Organizational Culture and Knowledge Sharing on Project Performance. *Doctoral Dissertation, Tongji University*. <https://doi.org/https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CDFD1214&filename=1013047518.nh>
- Guang, Z. (2020). The impact of brand crisis on enterprise performance in the Internet context. *Doctoral Dissertation, Shanghai Jiaotong University*. <https://doi.org/https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CDFDLAST2022&filename=1021679723.nh>
- Jigjiddorj, S., Zanabazar, A., Jambal, T., & Semjid, B. (2021). Relationship Between Organizational Culture, Employee Satisfaction and Organizational Commitment. *SHS Web of Conferences*, 90, 02004. <https://doi.org/10.1051/shsconf/20219002004>

- Lisa, O. (2019). The Effect of Entrepreneurial Behavior and Organizational Innovation on MSMEs Performance. *JEMA: Jurnal Ilmiah Bidang Akuntansi Dan Manajemen*, 16(2), 160. <https://doi.org/10.31106/jema.v16i2.2709>
- Lu, L. (2021). Research on the Influence mechanism of Social connection on the Performance of small and Medium-sized enterprises. *Master's Thesis, Jishou University*.
- Ngo, T. Q., & Ha, T. T. V. (2024). POLITICAL CONNECTIONS and FIRM PERFORMANCE: EVIDENCE FROM VIETNAMESE SMES. *Journal of Small Business Strategy*, 34(1), 1–44. <https://doi.org/10.53703/001c.94173>
- Nowak, M., & Pawłowska-Nowak, M. (2023). Prediction of the Type of Organizational Culture Using Machine Learning Approach. *Przeгляд Organizacji, March*, 264–272. <https://doi.org/10.33141/po.2023.03.28>
- Orozco Arias, J. I., & Anzola Morales, O. L. (2023). Organizational Culture for Innovation: A Case Study Involving an University Faculty. In *Journal of the Knowledge Economy* (Vol. 14, Issue 4). Springer US. <https://doi.org/10.1007/s13132-022-01069-9>
- Rahmah, M., Ameen, A., Isaac, O., El, A.-E., Abu-Elhassan, S., & Khalifa, G. S. A. (2020). Effect of Organizational Innovation (Product Innovation, Process Innovation, and Administrative Innovation) On Organizational Learning. *TEST Engineering & Management*, 82(2), 12101–12113.
- Seppa, Y. I., Ansar, M., Pratiwi, R. D., Yusriadi, Y., Yusuf, M., Lionardo, A., & Nasirin, C. (2021). Analysis of the influence of leadership, organizational culture and control systems on organizational performance at hasanuddin university hospital. *Proceedings of the International Conference on Industrial Engineering and Operations Management*, 7148–7156. <https://doi.org/10.46254/an11.20211256>
- Tsait, Y. (2019). Relationship between organizational culture, leadership behavior and job satisfaction. *BMC Health Services Research*, 11, 98. <http://ovidsp.ovid.com/ovidweb.cgi?T=JS&PAGE=reference&D=emed10&NEWS=N&AN=21569537>
- Wahyuningsih, S. H., Sudiro, A., Troena, E. A., & Irawanto, D. W. (2019). Analysis of organizational culture with denison's model approach for international business competitiveness. *Problems and Perspectives in Management*, 17(1), 142–151. [https://doi.org/10.21511/ppm.17\(1\).2019.13](https://doi.org/10.21511/ppm.17(1).2019.13)
- Zhixiong, Z. (2022). Research on the Formation Mechanism of Publishing Enterprises' Improvisation Capability and its Influence on Performance. *Doctoral Dissertation, Nanchang University*. <https://doi.org/https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CDFDLAST2023&filename=1023410237.nh>