

# **Organizational Culture, Innovation, And Performance of Small and Medium Firms: An Emerging Economy Perspective**

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## **Abstract**

Given the importance of small and medium-sized businesses to national economies, it is critical to understand the elements that contribute to their success. In this paper, I argue that organizational culture can play an essential role in creating an environment conducive to innovation, leading to greater performance. The study's goal is to use the Partial Least Square (PLS) statistical approach to investigate the relationship between organizational culture, innovation, and SME performance. Organizational culture is a system of shared beliefs, values, practices, behaviors, and artifacts that characterize an organization. The development of new or improved products, processes, services, or technology adoption is defined as innovation. It is acknowledged in the extant literature that small and medium-sized businesses can rely on innovation to separate themselves from competitors and gain a competitive advantage.

Therefore, this study proposes a conceptual model of organizational culture, innovation, and performance based on the literature. The paper contends that small and medium-sized businesses should focus on building a positive organizational culture if they want to improve their innovative capacities. A positive organizational culture can positively impact innovation. A supportive and open-minded workplace culture can encourage employees to share their ideas, take risks, adopt new technology and experiment with new methods, which can lead to the development of new products, processes, or services. When employees feel valued and empowered, they are more likely to be creative and innovative, leading to improved competitiveness and performance. On the other hand, a negative or restrictive workplace culture can stifle innovation and creativity, leading to a lack of progress and competitiveness in the market.

Thus, this study argues that innovation can serve as a mediating factor in the relationship between organizational culture and SME performance. By influencing the nature of this relationship, innovation can help SMEs leverage the benefits of a positive organizational culture and mitigate the negative impacts of a restrictive or unsupportive culture. While prior

research has found a positive association between a positive organizational culture and business performance, the mechanisms behind this relationship are not fully understood. The study adds to the current body of knowledge by giving a more nuanced view of the relationship between organizational culture and SME performance. By exploring the role of innovation as a mediating factor, this study sheds light on the mechanisms behind this relationship. It provides valuable insights for SMEs looking to improve their performance. The study focuses on four components of innovation: Marketing Innovation, Product Innovation, Process Innovation, and Organizational Innovation. Marketing Innovation refers to the development of new and creative marketing strategies, such as the use of social media or data-driven marketing techniques. Product Innovation refers to the development of new products or the improvement of existing ones. Process Innovation refers to the development of new or improved processes, such as streamlining production or improving supply chain management. Organizational Innovation refers to the introduction of new organizational structures, processes, or technologies to improve performance and competitiveness.

The study uses a random sampling technique to collect data from the owners/managers of SMEs in Ghana, with 400 respondents receiving questionnaires. The practical implications of this study include the importance of fostering a positive organizational culture that supports innovation and leads to improved performance for small and medium firms. The study adds to the Resource-Based View (RBV) of the firm, which contends that internal resources within a company, such as organizational culture, can significantly affect how well the company performs. By examining the relationship between organizational culture, innovation, and SME performance, the study also fits within and contributes to the Generic Theory of Organizational Culture.

**Keywords:** Emerging Economy, Innovation, Organizational Culture, Performance, Small and Medium Firms