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## **AN APPRAISAL ON SMALL FIRMS CORPORATE CULTURE AND INNOVATION: IMPLICATIONS FOR REWARD SYSTEMS**

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### **ABSTRACT**

Continuous innovation is becoming a necessity if firms want to stay competitive. Different factors influence the rate of innovation in a firm, among which corporate culture has often been recognized among the most important factors. In this paper we argue that the development of corporate culture that will support and foster innovation must be accompanied with an appropriate reward system. A study had been conducted among a small firms in Chennai showed that a statistically significant relationship exists among corporate culture that supports innovations and reward system features.

**Keywords**—Corporate culture, innovation, reward systems.

### **I. INTRODUCTION**

Achieving innovation in an organization is a topic of interest for managers and academics as it is found that it strongly contributes to the development of sustainable competitive advantage and thus improves corporate performance (Tellis, Prahu and Chandy. Peters and Waterman in their study of successful companies concluded that these companies had just a few basic beliefs or values where one of those beliefs is that most members of the organization should be innovators. In general terms there are two types of innovation: *product* innovation, or

changes in the product a company makes or the service it provides; and *process* innovation, a change in the way a product is made or the service provided. The term *innovation* is often mistaken only for technical innovations, but technical innovations are just a type of innovation. Every innovation has a strong impact to all aspects of organizational life. Organizations can gain competitive advantage only by managing effectively for today while simultaneously creating innovation for tomorrow. Hence, it is important for firms to have innovation as a part of their core competences. In this context the real question is how to stimulate innovation and which factors bring to innovations in a firm.

## **II. CORPORATE CULTURE, INNOVATION AND REWARDS**

Organizational change and innovation have become an absolute necessity to perform well under the present conditions of rapid external and internal developments and changes. Many firms invest heavily into innovation but we argue that this is not the only way to achieve innovation. The desire for innovation at all levels of an organization is often founded in a firm's corporate culture. Although researchers disagree about how to conceptualize and measure organizational culture, it can be understood as a system of shared values (that define what is important) and norms that define appropriate attitudes and behaviors for organizational members (how to feel and behave). Corporate culture, powerful although invisible, shapes employee behavior and influences an individual's actions. Thus, if appropriate, cultural values and norms are a powerful means of stimulating creativity and innovation. Every organization has a unique culture that drives the form, degree, and speed of innovation.

Though any organization can publicly espouse a set of core values, most innovative organizations have effectively infused their value system throughout the company and employees behave according to it. Organization's cultural norms are critical but less obvious source of influence on innovation. Norms as expected behaviors can also influence employee behavior; they define appropriate attitudes and behaviors for organizational members. The reward system defines who gets rewarded and why and thus acts as a statement of an organization's values, beliefs and norms. Reward systems are one of the easiest things a company can change in order to achieve desired

results, although some other preconditions must be satisfied: full and open transparency regarding awards, the communication of the availability of the rewards, the criteria to be satisfied, and the identification of the award recipients. In case all preconditions are satisfied reward are real indicators of what an organization wants to achieve in the future.

Reward system design can help to modify the organization's culture. It is a mechanism that can be used by managers to communicate desired behaviors to organizational members. Managers who complain about lack of motivation in their subordinates should consider the possibility that the reward systems they have installed are paying off for behavior other than what they are seeking. Some authors identified compensation among the critical levers to help change the corporate culture.

### III. METHODOLOGY OF RESEARCH

The questionnaire survey that is the basis for this paper was conducted from January to March 2010 among all small firms where employs are more than 150 employees has taken as the database for this study. The respondents to the survey were human resource directors of the companies. There were 191 firms in our sample, out of which 68 firms responded to our survey, at the response rate of 36% which is satisfactory for the purpose of our survey

**Tabel I**  
CORE BUSINESS OF THE SAMPLED FIRMS

Core business	%sample
Retail	8,82
Construction	14,71
Production	50,00
Professional services	4,41
Telecommunication	2,94
Public services	7,35
Tourism	4,41
Other	7,35
<b>Total</b>	<b>100,00</b>

The sample included only firms that have more than 150 employees, no matter of the ownership structure or legal form as it was considered that such firms have developed an adequate organizational culture and a formal compensation system.

Researches in this filed often take the same study sample. The questionnaire was designed in such a manner to put a spot light in the field of corporate culture and reward systems and also some general data about the firm. Variables were rated based on the Likert scale items.

**Tabel II**

OWNERSHIP STRUCTURE OF THE  
FIRMS IN THE SAMPLE

Ownership structure	% sample
Mostly private - domestic	42,65
Mostly private - foreign	35,29
Public ownership	22,06
<b>Total</b>	<b>100,00</b>

Firms examined in our study sample are a good representation, with the majority of the examined firms from production sector (50%), followed by construction (14, 71%) and retail (8, 82%). Ownership structure of the examined firms is also mixed. A total of 42.65% of the examined firms are mostly privately owned, with Croatian owners. Further 35.29% of firms are privately owned but with foreign owners and state owned firms account for 22, 06% of all firms in the sample (Table II).

#### IV. DISCUSSION AND RESULTS

As noted previously, corporate culture can support innovation trough core values and norms that can be shaped with certain features of reward system. The cornerstone of our approach and the relationship corporate culture – innovation - rewards is that those who perform well and in particular the successful innovators receive rapid promotion or successively more challenging assignments what motivates them to repeat the same behavior in the future.

TABLE III  
FIRM'S ATTITUDE TOWARDS FAILURE

Failure is seen as a possibility for learning and improvement	% of the total sample	Ownership structure		
		Mostly private - domestic	Mostly private - foreign	Public ownership
Usually not	7,35%	6,90%	12,50%	0,00%
Sometimes	16,18%	20,69%	8,33%	20,00%
Often	60,29%	62,07%	50,00%	73,33%
All the time	16,18%	10,34%	29,17%	6,67%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

The most important value to cultivate in the organizational culture to unleash the innovative power is acceptance of failure as part of the learning and experimentation process. There are good preconditions to develop corporate culture that will support innovations in all the firms. Firms should have a very open-minded attitude towards failure as more than 76% of all examined firms see failure as a possibility for learning and further employee development. There are some differences taking into account ownership structure of the examined firms. Surprisingly, firms that are majority publicly owned have the most liberal attitude to failure in achieving desired results as failure is always seen as a source of possibilities for learning. This tells us that such firms have also a modern approach to human resources.

The connection among innovations and rewards will be strongest, if it becomes embedded in the corporate culture to reward each innovation and employee contribution. Practicing performance management and rewarding innovations would increase the overall rate of innovation in the long run. Innovation must be a part of everyone's job, which can be done only by providing time and resources for employees to experiment and pursue their ideas and not punishing them for failures.

## **V. CONCLUSION**

Innovation is the wellspring of economic growth, but it is extremely difficult to obtain. By definition, it involves the creation of something that does not yet exist, something new for a firm. Based on a growing body of knowledge about corporate innovation, there are a number of major characteristics of innovative companies that must be considered, one of which is also its reward system. Reward systems reflect the corporation's interest and commitment to innovation. If an organization culture has a focus on innovation, it is likely that the compensation schemes should encourage and reinforce those behavior. Having once been innovative does not guarantee that innovation will be sustained. Innovation is manageable; it can be discouraged and it can be encouraged by the management actions.

The most important source of innovation is the individual employee. Innovation will be the result of high employee engagement, which will be adequately

rewarded. Statistically significant relationships among innovation rewards, corporate culture and reward system features were also explored. In all the firms the strength of corporate culture shows a statistically significant relationship to innovation rewards, as well as with different features of variable pay.

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