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Mediating Impact of Innovation on Relationship between Market Orientation, Organizational Learning, Organizational Culture and Organizational Performance

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ABSTRACT

This paper explores the relationship between market orientation, organizational culture, organizational learning, innovation and performance. On the basis of extensive literature, a model of relationship of variables has been developed. This paper has discussed four types of organizational culture by presenting competing value framework model of organizational culture proposed by Cameron and Quinn (1999). This paper provides useful information to the organizations aiming to increase their performance. The major contribution of this paper is to explore the mediating impact of innovation on the relationship between market orientation, organizational culture and organizational learning relating to organizational performance in developing economies. The originality of this paper is that it provides useful implication for different types of organizations to understand the relationship of market orientation, organizational learning, organizational culture and innovation to improve their interfunctional coordination, to introduce innovative products and processes and to improve their cultural elements as well as resulting in high performance.

1. Introduction:

Cascio (2006) explored that performance defines the degree of achievement of job of an employee. Daft (2000) described that organizational performance is the capability of organization to complete its goals efficiently. Ricardo (2001) exhibited that if an organization has achieved its goals and objectives then it is successful in achieving superior Organizational Performance. Saunila et al. (2014) exhibited that performance measurement is necessary to improve the organization strategies.

To show superior Organizational Performance, there is need of some resources. Many factors contribute to superior Organizational Performance like innovation, organization culture, organizational learning, and market orientation. Hurley et al. (2003) stated that if a firm is engaged in innovation then it has the capability to introduce new products and processes.

The organizational learning literature exhibits that firms always learn from their customers (De Loecker, 2011; Lederman, 2010; Liu et al., 2009; Salomon, 2006; Salomon & Jin, 2008; Salomon & Shaver, 2005) and that if knowledge is acquired from diverse geographic locations then it can be an effective resource for generating novel knowledge combinations thus leading to innovation (Hitt et al., 1997; Lahiri, 2010; Penner-Hahn & Shaver, 2005; Singh, 2008; Wang et al., 2011; Wilson & Doz, 2011). If we look at developing economies then we will come to know

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that organizations are striving for better performance in developing economies but still are not so successful in adopting organizational culture leading to best performance.

Organizations of developing economies are not implementing the concept of market orientation as it must be implemented. Organizations can only gain competitive advantage if they only use their resources for the development of new products and services. The major contribution of this paper is the analysis of relationship between market orientation, organizational learning, organizational culture and innovation to gain sustainable competitive advantage. Ljiljana Božic , Đurdana & Ozretic-Došen (2015) explored that market orientation plays a pivotal role in development of innovation. There is a need to focus on learning from customers and effective use of available resources especially in developing countries. According to International Monetary Fund's World Economic Outlook Report, April 2014 and World Bank data developing economies are Pakistan, Turkey, Indonesia, Iran, Iraq, Egypt, Malaysia and United Arab Emirates.

All countries are striving hard but still there is a need to show flexibility to adopt learning behavior, market orientation and impressive organizational culture leading to innovation. Kallio and Lappalainen (2015) exhibited the strong relationship between organizational learning and innovation. Organizations must show flexibility and must adopt innovativeness to meet changing demands of today's environment (Orchard, 1998; Parker & Bradley, 2000; Valle, 1999). According to Narver and Slater (1990), market orientation is based upon three constructs: consumer orientation, competitor orientation and interfunctional coordination.

Kohli and Jaworski (1990) base market orientation on three elements: the organization's creation of market intelligence, dissemination of that intelligence through all departments, and organizational response selecting markets and designing products and services to meet present as well as future needs. Learning and innovation have positive relationships. Learning leads to innovation but there is no clear direction about relationship of learning and market orientation. For example, Sinkula et al. (1997) studied the impact of learning on market orientation while Slater and Narver studied the impact of market orientation on learning. Many Scholars indicated that market orientation is able to lead to learning but learning does not lead to market orientation. Dickson (1996) described that market-orientation explores a set of processes that enhance the firm's ability to learn.

Farrell (2000) explored that: Market-oriented firms gain knowledge from customers, exploit information, utilize information timely and thus respond to market conditions. Organizations must hire experts to exploit existing knowledge and must generate new knowledge to introduce innovative products and services. The organizational culture must support innovation. Market orientation helps in creating effective organizational culture that supports innovation. Insights that we gain from the experiences of the people of the organization are also part of learning and help in improving capabilities of the organization.

Organizational culture has the ability to create innovative behavior among employees of the organization. Organizational culture is defined as the organizational members' common values, beliefs and hidden assumptions (Cameron & Quinn, 1999; Denison, 1990; Deshpande´& Webster, 1989; Miron et al., 2004). It has been observed that flexibility oriented cultures promote innovation while stability oriented cultures do not promote it. Kwon Choi et al. (2013) exhibited that innovation significantly mediates the relationship between culture and performance of the organizations. Organization culture also enhances interpersonal relationships. Kwon Choi et al. (2013) also explored that ethical climate of the organization strongly supports innovation.

Establishment of too much rules is also a hindrance in adopting innovation because in such so strict system employees will reluctant to introduce innovative ideas because of risk associated with innovation. Adhocracy culture states that organization is dynamic and is considered as entrepreneurial place where people are willing to take risks. Controlled and structured organizations play a negative role in promoting innovation. Hierarchy culture also has a negative impact on innovation and employees are closely adhered to rules and regulations in this culture. According to Tesluk et al. (1997), from the perspectives of socialization and co-ordination, the key elements of culture have twofold

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impact on innovation. Various studies have been conducted on the key role of culture in innovation ((Mwailu & Mercer, 1983; Wernerfelt, 1984; Rumelt, 1984; Penrose, 1959; Ahmed, 1998; Higgins & McAllaster, 2002; Jamrog et al., 2006; Jassawalla & Sashittal, 2002; Lau & Ngo, 2004; Martins & Terblanche, 2003; Mumford, 2000).

According to Baker and Sinkula (2007), generative learning processes must be innovative oriented than imitative oriented. The main purpose of this paper is to analyse the mediating impact of innovation on relationship between organizational culture, market orientation and organizational learning leading to organizational superior performance. Greco, Grimaldi and Cricelli (2015) supported strong relationship of Organizational Performance and innovation. Johannessen and Skaalsvik (2015) strongly supported the significant relationship of innovation and Organizational Performance

First, this paper reviews literature on the given topic then conceptual and theoretical framework will be developed. After that their will be a summated discussion and recommendations for future research.

The conceptual framework proposed in this paper is based on three theories. One is Resource based view of the firm, according to which firm can gain sustainable competitive advantage if it identifies available resources, utilizes and preserves them more efficiently as compared to its competitors (Peteraf, 1993; Amit & Schoemaker, 1993; Carmeli & Tishler, 2004; Collis & Montgomery, 1998; Dierickx & Cool, 1989).

These resources may be tangible or intangible like knowledge, product reputation, organization culture and have great impact on performance of the organization (Connor, 2002; Hall, 1992; Barney, 1991; Peteraf, 1993). Lopez (2003) exhibited that intangible resources of the firm like organizational culture are significantly related with performance of the organization.

The second underlying theory of this paper is Dynamic Capability Perspective theory according to which firm must have the ability to integrate its external and internal competencies to cope with challenges of rapidly changing environments (Teece et al., 1997). The third underlying theory is theory of growth of firms by Penrose (1959). According to this theory, organizational learning influences positively to organizational performance. This theory describes that organizational learning leads to innovation which in turn leads to superior Organizational Performance.

2. Conceptual Framework and Literature Review

By reviewing the literature, the impact of market orientation, organizational learning and organizational culture has been identified on innovation leading to superb organizational performance and also highlights the relationship of market orientation and Organizational Performance. Following figure shows the relationship of variables and highlights the mediating effect of innovation.

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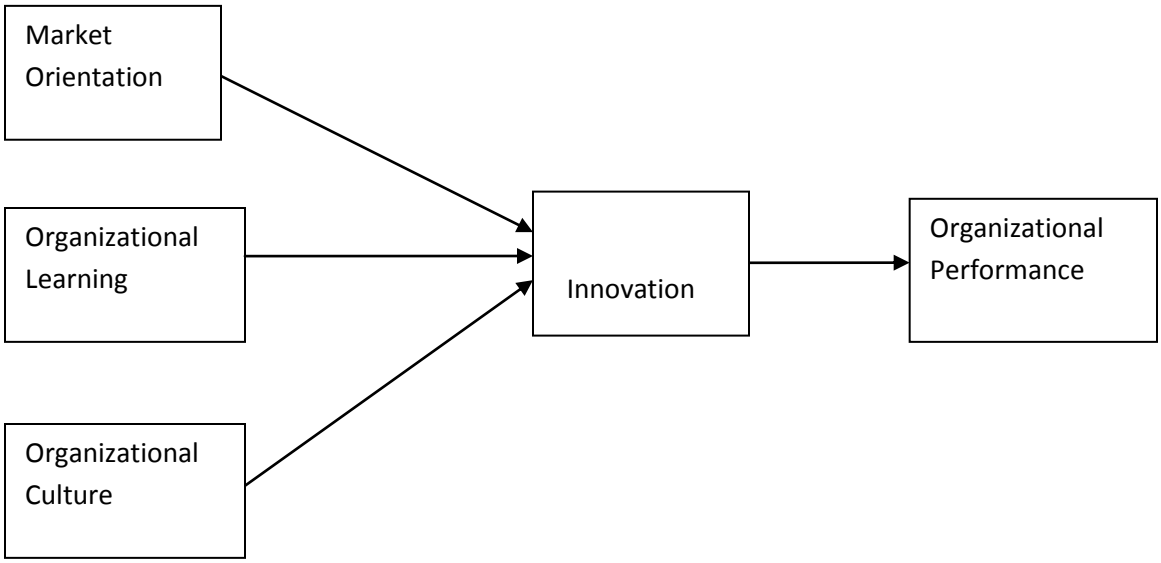

2.1 Organizational Performance

Performance defines the degree of achievement of objectives related to work. Cascio (2006) exhibited that when employees become successful in achieving their objectives related to job then organizations become successful in achieving superior performance because employees strive for achieving the objectives of the organization. Performance defines the accomplishment of tasks. Stannack (1996) also exhibited that many researchers used the term performance to measure input and output efficiency. Hefferman and Flood (2000) explored that Organizational Performance not only defines problem but also gives a solution of the problem. Organizational Performance is the ability of the organization to complete its goals by efficiently using its resources. Richardo (2001) described that if an organization has achieved its goals then it is called Organizational Performance. When organizations show superior performance then it shows that it is gaining higher return on equity and this is possible only if employees are showing good performance.

All organizations must have some performance measurement systems to evaluate that organization is successful in achieving its objectives or not. Performance measurement system also helps in developing better strategic plans for future. Many Scholars have suggested many performance measurement systems. Kaplan and Norton (2001) exhibited that organizations are using customer feedback, quality and services by giving more importance to intangible assets. The need is to establish a proper performance measurement system to evaluate the performance of employees related to both financial and non financial activities.

Saunila et al. (2014) exhibited that performance measurement is necessary to develop and improve innovative capabilities of the organization Strategic performance measurement system is used to measure the performance of employees. Chenhall (2005) interpreted that financial and non financial performance can be measured with the help of strategic performance measurement system. He also exhibited that this system also helps in improving competitiveness of the organization. Kaplan and Norton (1992) described that most important tool of strategic management system is Balance Scorecard. This Scorecard ensures the rational interpretation of measurement of performance. It describes the effect of learning, growth, business activities and customers. Anthony and Govindarajan (2003) exhibited that Balance Scorecard is the best tool to measure the performance of the organization and to improve the strategies of the business.

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Burns and Mckinnon (1993) exhibited that performance measurement systems must be used to remain aware of the performance and to control the uncertain events by improving its corporate strategies.

2.2 Market Orientation

Narver and Slater (1990) explored that market orientation focuses on creating high values for consumers. Slater and Narver (1999) described that market oriented firms identify latent and expressed needs of customers and carry out innovative activities to fulfill those needs. The two most accepted definitions of market orientation are proposed by Narver and Slater (1990) who emphasized upon the cultural aspect of market orientation while Kohli and Jaworski (1990) emphasized upon the behavioral aspect. Narver and Slater (1990) stated that market orientation depends upon there constructs: customer orientation, competitor orientation and interfunctional coordination. Kohli and Jaworski (1990) stated that market orientation is based upon there constructs: organization's creation of market intelligence, dissemination of market intelligence through all departments and organizational response selecting markets and designing products and services to meet present and future needs of customers.

Narver and Slater (1990) described three basis of market orientation.

- Customer orientation: the goal of understanding and meeting the needs of customers is at the heart of organization.
- Competitor orientation: we should be aware of activities of competitors. Environmental scanning must be conducted to gain sustainable competitive advantage.
- Interfunctional coordination: through interfunctional coordination, information is disseminated among all members of the organization and utilized to attain objectives of the organization.

2.2.1 Market Orientation and Innovation

If we look at developing countries then we will come to know that there is lack of implementation of market orientation in those countries due to lack of resources. Recent researches have revealed the strong relationship of market orientation with innovation and performance in mature economies like US (Kohli & Jaworski, 1993; Slater & Narver, 1994), Germany (Homburg & Pflesser, 2000), and the Netherlands (Langerak, 2001).

Market orientation is significantly related with innovation (Han et al., 1998; Santos et al., 2000; Matear et al., 2002; Agarwal et al., 2003; Leskiewicz & Sandvik, 2003; Hult & Ketchen, 2001; Hult et al., 2004; Verhees & Meulenberg, 2004; Aldas-Manzano et al., 2005;Woodside, 2005; Zheng et al., 2005; Menguc & Auh, 2006). Božic and Ozretic (2015) explored that customer and competitor orientation strongly affects innovation.

Slater and Narver (1994), Lukas and Ferrell (2000), Atuahene-Gima (1996), Varadarajan and Jayachandran (1999) explored the positive relationship between market orientation and innovation. They exhibited the impact of market orientation on innovation. They contended that innovative capability significantly depends upon learning from customers. This shows that innovation is dependent upon market oriented culture. Resource based view (Foley & Fahy, 2009) supports market orientation. According to this view, firm can gain competitive advantage by using its resources that are valuable to customers, firm specific and are really difficult to imitate. Market sensing capability of resource based view has a significant relationship with market orientation. Lukas and Ferrell (2000) described that more innovative firm emphasize greatly on market orientation while less innovative firms do not emphasize greatly on

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market orientation. Vorhies et al., (1999) defined that market oriented firms put great emphasis on identifying and satisfying customer needs and in this way focus on producing new goods and services to satisfy customer needs.

Study of Narver et al. (2004) divides market orientation in two dimensions: proactive market orientation and responsive market orientation. A proactive market orientation deals with identifying those needs of customers of which they are unaware. While responsive market orientation deals with satisfying the expressed needs of customers. This paper follows the advice directed by Atuahene-Gima et al. (2005) that why firms adopt proactive and responsive market orientation? Olson et al. (2005), Atuahene-Gima et al. (2005), Narver et al. (2004), concluded that proactive market orientation attempts to identify the unexpressed needs of customers and is positively related with innovation.

Market orientation plays a key role in development of innovation. Innovation can be radical or incremental. According to McKee (1992), radical innovation develops technological changes leading to product improvements. While Zaltman et al. (1973) stated that more creative, original and risky innovation leads to more radical innovation. Dewar and Dutton (1986) stated that incremental innovation involves only smaller improvements in existing technology. According to Atuahene-Gima and Ko (2001), customers describe their needs with respect to familiar products only thus negatively affecting to radical innovation. Lawton and Parasuraman, (1980) and Gatignon and Xuereb (1997) described a negative relationship between market orientation and innovation. But, Cooper (1979) explored market orientation positively affects innovation leading to fulfill the needs of customers.

According to Goldenberg et al. (2001), market orientation provides new efficient sources of ideas leading to introducing new products and also suggests improvements in existing products. There is much empirical evidence in support of Cooper (1979) that supports that market orientation has significant relationship with innovation. Lukas and Ferrell (2000) also supported this relationship. Li and Lin (2008) conducted a questionnaire survey of 227 high-technology firms in Taiwan and results of survey proved that proactive market orientation greatly affects radical innovation than responsive market orientation. According to Atuahene-Gima (1995), Cooper and Kleinschmidt (1987), market orientation is necessary for successful innovation.

Volberda (1998) stated that organizations respond to competitive environment of mature economies with incremental innovation while respond to competitive environment of emerging economies with radical innovation. Radical innovation deals with needs of emerging customers and involves development of new products and processes (Danneels, 2002; Jansen et al., 2006; McGrath, 2001). While incremental innovations deal with expanding existing products, meets the demands of existing customers and aims at improving efficiency of existing distribution channels and helps in reinforcing existing processes (Danneels, 2002; Jansen et al., 2006; Lewin et al., 1999).

Radical innovation deals with meeting the latent needs of customers. According to von Hippel et al. (1999), businesses can show superior performance if they focus on identifying latent needs of customers. According to Baker and Sinkula (2002), radical innovation is significantly related with generative learning. Proactive market orientation is tied to generative learning. Danneels (2004) explored that responsive market orientation is negatively related with radical innovation. Responsive market orientation is related with adaptive learning. According to Sinkula (2007), adaptive learning is not enough for innovation. Responsive market orientation can eradicate radical innovation because responsive market orientation leads to adaptive learning.

According to Lilien et al. (2002), exploring the latent needs of the customers is significantly related with innovation. Narver et al. (2004) conducted an empirical study highlighting the positive role of proactive market orientation and innovation. Narver et al. (2004) exhibited that both proactive and responsive market orientation must be a basis of innovation. There are many examples of responsive market orientation affecting innovation by satisfying and fulfilling customer's expressed needs. One good example is Wal-Mart. It is always engaged in innovation and always maintains its everyday low price strategy and successfully delivers superior customer value by implementing responsive

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market orientation. While proactive market orientation deals with gaining insights into latent demands of customers and is more focused on innovation.

There are many empirical researches available on relationship of proactive and responsive market orientation. Narver et al. (2004) developed measurement scale to prove the responsive and proactive market orientation effect on innovation and proved that only proactive market orientation is significantly related to innovation. Responsive market orientation has greater impact on incremental innovation. Tsai et al. (2008) concluded that responsive market orientation has not significant relationship with innovation as compared to proactive market orientation. He proved this by conducting a research by developing 107 new development programs and implemented them in five high tech industries in Taiwan. Zhang and Duan (2010) explored that proactive and responsive market orientations have positive impact on innovation.

However market orientation is the combination of customer orientation, competitor orientation and interfunctional coordination. It focuses on customers and firms are aware of the actions of the competitors and have complete knowledge of market. Firm designs its products and services according to needs of customers to satisfy customers, to capture largest market share and to gain sustainable competitive advantage as well. Many studies supported these dimensions of market orientation (Chan & Ellis, 1998; Ellis, 2004a; Fahy et al., 2000; Farrell 2000; Harris & Ogbonna, 2001; Moorman & Rust, 1999; Pelham & Wilson, 1996; Slater & Narver, 1996; Tse et al. 2003). Wong and Tong (2012) strongly supported the positive effect of market orientation on innovation.

In the light of above arguments, following proposition can be developed.

RP1. Market orientation of an organization is significantly related with innovation.

RP2. Innovation mediates the relationship between market orientation and performance of organization.

2.2.2 Market Orientation and Organizational Performance

Market oriented firms face less risk of failure because such firms are more aware of activities of competitors and needs of customers (Atuahene-Gima, 1995; Cooper & Kleinschmidt, 1987). Thus superior performance of the organization is dependant upon its degree of implementation of market orientation. Empirical researches also support the view that market orientation reinforces innovation and results in superb performance of the organization (Slater and Narver, 1994a; Appiah-Adu, 1997; Baker and Sinkula 1999). Studies conducted by Wren et al.(2000) in South Korea and by Zhang and Duan (2010) in China and by Ramaseshan et al. (2002), showed the success of innovation is related to market orientation leading to high performance of organization. Market orientation leads to superior Organizational Performance by identifying and fulfilling the needs of customers. If we want to get success and profit then first of all our focus must be on the interest of customers (Tajeddini & Trueman, 2012). Cooper (1984) explored that if firms want to increase their performance then they must have following characteristics:

- Market orientation
- Focus on product
- Technological orientation

If we look at developing economies then we will come to know that organizations of developing countries are facing scarcity of resources and have not much focus on checking efficiency of existing operations. Slater and Narver (1995) proposed positive relationship between market orientation and firm performance. Kohli and Jaworski (1993) described that market orientation shows positive behavior in response to market conditions, thus contribute positively to

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firm performance. Han et al. (1998) investigated 134 banks and concluded the mediating impact of innovation on market orientation and firm performance. Peterson (1989), Meziou (1991), Pelham and Wilson (1996), Horng and Chen (1998) strongly supported the direct impact of market orientation on firm performance.

Pelham (1997) explored that market oriented firms have necessary abilities of gathering market information and are able to process this information efficiently. In this way firms become able to respond to needs of customers appropriately and quickly and get sustainable competitive advantage. Market oriented firms have more customer intelligence. Market orientation and firm performance have positive relationship and this relationship is supported by many scholars (Kohli & Jaworski, 1990; Slater & Narver, 1994; Atuahene-Gima, 1996). Many studies indicate the positive relationship between market orientation and firm performance (Avlonitis & Gounaris, 1999; Deng & Dart, 1994; Jaworski & Kohli, 1993; Ruekert, 1992).

In the light of above arguments, following propositions can be developed:

RP3. Market orientation is significantly related with performance of organization.

2.3 Organizational Learning

Argyris and Schön (1978) described that when organization member respond to environmental changes, identify errors, correct them and act as learning agents then organizational learning occurs. Organizational learning is a process of creating and transferring knowledge within an organization. Garvin (1993) exhibited organizational learning is a process of creating, transferring knowledge and attitude of the company that reflects learning outcomes of the company.

Colombelli, Kraftt, and Quatraro (2013) exhibited that in today's world of tough competition, knowledge has primary importance for survival of company. Employees have to retain that knowledge. When an organization improves then it gains experience and that experience helps in creating knowledge. Huber (1991) concluded that if any units of the organization acquire potentially useful knowledge then organization learns. According to Huber (1991), Tippins and Sohi (2003), organizational learning has following four components:

- Knowledge distribution
- Knowledge acquisition
- Development of organizational memory
- Shared interpretation

Jiménez-Jiménez and Sanz-Valle (2011) supported Huber's concept of organizational learning and exhibited that four organizational learning components are strongly related with innovation among Spanish firms.

2.3.1 Organizational Learning and Innovation

Knowledge acquisition deals with acquiring knowledge that is necessary for firm's operations. Knowledge acquisition plays a key role in establishing relationship between knowledge bas and skills of firm that are required to initiate innovation. Shared interpretation helps in clarification of strategic purposes, avoiding ambiguity of knowledge thus contributing positively to organizational innovation (Fugate, Stank, & Mentzer, 2009). Knowledge distribution deals with distribution of acquired knowledge. It exhibits that individuals must be aware of nature of knowledge and must be able to provide feedback on potential alternatives and adequacy of acquired knowledge. Organizational

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memory deals with developing innovative capability, deals with acquisition of new knowledge, its interpretation and finally leading to innovative actions.

According to Cefis and Marsili (2005), organizational learning seeks to introduce new products and services to bring innovations to survive in the highly competitive environment. Organizational learning strongly affects innovation (Zohoori et al., 2013). Resource based view supports the view that organizational learning helps in gaining sustainable competitive advantage. Organizational learning plays a key role in gaining sustainable competitive advantage. Organizational learning helps in gaining new knowledge and leads to innovation (Cohen & Levinthal, 1990; Nonaka & Takeuchi, 1995). Lloréns, Ruiz and Garcia (2005) exhibited that an organization must develop those factors that help in introducing new ideas, products and services as compared to competitors thus contributing to innovation.

According to García, Ruiz and Llorens (2007), organizational learning inspires new knowledge and creative ideas, increase the ability to implement new ideas and has positive relationship with organizational intelligence. Ussahawanitchakit (2008) exhibited that more commitment to learning leads to more innovative actions. Organization learning has positive impact on innovation (Bontis et al., 2002; Ellinger et al., 2002; Tippins & Sohi, 2003). Zhi-hong Song (2015) exhibited that organizational learning significantly affects innovation.

On the basis of above arguments, this paper proposes following proposition:

RP4. Organizational learning is significantly related with innovation.

RP5. Innovation mediates the relationship between Organizational learning and performance of organization.

2.3.2 Organizational Learning and Organizational Performance

Lukas and Ferrell (2000) exhibited that Organization learning helps organization in achieving success in future. Organizational learning is the key to Organizational Performance and helps in gaining sustainable competitive advantage. Organizations that adopt strategies relating to organizational learning achieve better performance (Ellinger et al, 2002; Calantone, Cavusgil & Zhao, 2002).

Organizational learning significantly affects firm's performance. Organizational learning influences innovative performance of the firm and improves market oriented behavior of the firm.

Martinez-Costa and Jimenez-Jimenez (2009) supported the significant positive relationship of organizational learning and organizational performance. Martinez-Costa and Jimenez-Jimenez (2009) exhibited that organizations that have adopted learning can better sense events, trends and changes of market that can help in capturing largest market share. Martinez-Costa and Jimenez-Jimenez (2009) also explored that organization learning helps in adopting more responsive structure than competitors to respond to new challenges. Market information processing activities can be enhanced through organizational learning. Chaveerug (2008) explored those organizations that are more committed to organizational learning show superior performance. Organizational learning influences interpersonal relationships positively (Zellmer-Bruhn & Gibson, 2006).

In the light of above arguments, this paper proposes that:

RP6. Organizational learning is significantly related with performance of organization.

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2.4 Organizational Culture

Organizational culture is defined as the common beliefs and values of the organizational culture. Tichy (1982) explored that organizational culture holds the organization together as normative glue. Hodgetts and Luthans (2003) explored the different characteristics of organization culture. Organizational culture stimulates innovative behavior (Cameron and Quinn, 1999; Denison, 1990; Deshpande´ and Webster, 1989; Miron et al., 2004). Organizational culture influences the behavior of employees, innovative activities of the organization and makes the environment comfortable or uncomfortable depending on that which type of culture has been adopted by the organization. There are many types of cultures but this paper discusses four types of culture that are adhocracy, clan, market and hierarchy culture proposed by Cameron and Quinn (1999). Cameron and Quinn (1999) proposed a model Competing Values Framework (CVF). CVF has also been used in empirical study to check the impact of organizational culture (Deshpande´ et al., 1993; Igo and Skitmore, 2006; Lau and Ngo, 2004; Obenchain and Johnson, 2004; Stock et al., 2007).

2.4.1 Organizational Culture and Innovation

Hartmann (2006) exhibited that organizational culture influences employees to get more engaged in business activities and influences their behavior to accept innovation. Many scholars exhibited strong relationship between organizational culture and innovation (Ahmed, 1998; Martins & Terblanche, 2003; Mclean, 2005; Mumford, 2000).

The model proposed by Cameron and Quinn (1999) defines four cultures adhocracy, hierarchy, clan and market. Adhocracy culture has a positive effect on innovation and risk taking. The focus of clan culture is on internal organization. Its main characteristics are corporate commitment and employee involvement. Market culture is control oriented and focuses on external factors. Its main characteristic is competitiveness. The hierarchy culture focuses on external factors but is control oriented as well. This model has two dimensions; one is flexibility and discretion as compared to stability and control while other is external focus as compared to internal focus. Flexibility oriented culture support innovation as compared to stability oriented culture.

Matsuno et al. (2002) exhibited that flexibility oriented cultures have proactive strategic orientation and encourage freedom that leads to creativity, thus encourages innovation.

Lin (2007) described that willingness of employees to use and share knowledge help employees in improving innovation capabilities. Ouchi (1979) exhibited that Bureaucratic control is implemented through using rules and authority of hierarchies of authority. Covin and Slevin (1989) contended that efficient-bureaucratic firms gain efficiency in internal operations. Above discussion concludes that flexibility oriented culture supports innovation while stability oriented culture does not support it. While other dimension describes that externally oriented cultures support innovation while internally oriented cultures support imitation. Lukas and Ferrell (2000) exhibited that market oriented firm actively responds to market conditions. Droge et al. (2008) described that proactive strategic orientation implements high level of market orientation to bring innovation. Kimberly and Evanisko (1981) and Detert et al. (2000) explored externally oriented firms can get more information about their business environment and will favor development of innovative activities within the firm. External oriented firm can get breakthrough innovations as compared to internal oriented firms and are able to get competitive advantage (Baker and Sinkula, 2007; Matsuno et al., 2002; Cooper et al., 1989). Hierarchal culture supports internal orientation (Bolton, 1993) while adhocracy culture promotes external orientation and flexibility.

Barney (1986) explored that if innovation is based upon organizational culture then it becomes a source of competitive advantage. Syrett and Lammiman (1997), Tushman and O'Reilly (1997) exhibited that those organizations have bright future who have the ability to embed innovation into culture and management processes of their

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organization. Tushman and O'Reilly (1997) strongly supported the view that the heart of organizational culture is the organizational innovation. Syrett and Lammiman (1997) also supported the positive relationship of organizational culture and innovation. The basic elements of organizational culture influence innovation in following two ways:

1. According to Chatman (1991) and Louis (1980) both cited in Tesluk *et al*. (1997), individuals learn through socialization processes that what behavior must be adopted and whether organization operations are innovative oriented or not.
2. The basic values form the behavior of individuals and are also involved in management practices (Tesluk *et al*., 1997).

An innovative culture helps in identifying problems of the organization and presents their innovative solutions. A culture suporting innovation helps in gaining sustainable competitive advantage. Kwon Choi, et al. (2013) exhibited that innovation mediates the relationship between organizational culture and Organizational Performance.

According to resource based view firm can get sustainable competitive advantage if it has the ability to identify, develop, implement resources that are difficult to imitate by rivals (Peteraf, 1993; Amit & Schoemaker, 1993; Carmeli & Tishler, 2004; Collis & Montgomery, 1998; Dierickx & Cool, 1989). These resources may be tangible and intangible and intangible resources may be culture, knowledge, skills that affect Organizational Performance through innovation. Organization culture is vital to innovation (Connor, 2002; Weick, 1985; Schein, 1984; Hall, 1992; Barney, 1991; Peteraf, 1993). Organizational culture that supports entrepreurship and learning new skills can lead to innovation showing superior performance (Hurley & Hult, 1998; Liu, Luo, & Shi, 2002). Organizational culture that supports innovation involves risk taking and freedom (Lock & Kirkpatrick, 1995). Siguaw et al. (2006) exhibited that organizational culture is shaped by innovative orientation of the firm. Major factor that hinders innovation is control (Amabile, 1998; Angle, 1989; Kanter, 1983; Oldham & Cummings, 1996).

On the basis of above arguments following proposition can be formulated:

RP7. Organizational culture is significantly related with innovation.

RP8. Innovation mediates the relationship between Organizational culture and performance of organization.

2.4.2 Organization Culture and Organizational Performance

Lim (1995) explored positive relationship between organizational culture and performance of the organization. Denison (1990) exhibited that Organizational Performance depends on the degree of sharing of cultural values among employees. Organization culture influences the behavior and decisions of employees and helps them in showing good performance. Organizational culture helps employees in increasing efficiency and helps them in understanding objectives of the organization. Organization culture motivates the employees as driven force in showing superior performance. Saffold (1998) exhibited that ethical behavior of employees can be improved by organizational culture. Deal and Kennedy's (1982) exhibited that superior performance of the organization can be achieved if organization culture is strong and goals of employees are in line with goals of management.

Barney (1991) pointed out that if the culture is rare and imperfectly imitable then it can lead to superior organizational performance. Organizational culture plays a pivotal role in improving the performance of employees of the organization which in turn can lead to improved performance of the organization. Researches demonstrate that organizational culture helps employees in doing their work efficiently and effectively. When an employee works in an organization then he adjusts himself with the values of the organization and after successful adoption of organizational culture, he performs his work efficiently. Hence, it can be inferred that organizational culture has a positive impact on performance of the organization. Gallagher (2008) interpreted that 60 research studies were conducted between 1990

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and 2007 covering 7600 small business units to find the impact of organizational culture on Organizational Performance. All these research studies showed positive relationship between organizational culture and performance of the organization.

In the light of above arguments, this paper proposes that:

RP9. Organizational culture is significantly related with performance of organization.

2.5 Innovation and Organizational Performance

Innovation is the adoption of the new idea or behavior, process, policy, service or everything that is new to the organization. Success of an organization depends upon its innovative capability (Henderson & Clark, 1990; Lieberman & Montgomery, 1998; Schumpeter, 1934, Schumpeter, 1942; Tushman & Nadler, 1986; Utterback, 1994). The strong relationship of innovation and performance has been proved by many authors in context of many types of institutions like industrial firms, public administration, service organizations (Zahra et al., 1988; Subramanian & Nilakanta, 1996; Damanpour & Evan, 1984).

Damanpour (1991) exhibited that types of innovation are according to their purposes, for example, technical or administrative. Technical innovation involves adoption of new technologies and administrative innovation involves the adoption of new policies (e.g. Evan, 1966; Hage, 1980; Normann, 1971; Tushman & Nadler, 1986). Harris and Mowery (1990) stated that Innovation plays a pivotal role in gaining economic efficiency. Innovation plays a pivotal role in achieving long term success especially in dynamic markets (Greco , Grimaldi & Cricelli, 2015; Baker & Sinkula, 2002; Balkin et al., 2000; Darroch & McNaugton, 2002; Lyon & Ferrier, 2002; Scherer, 1992; Utterback, 1994; Wolfe, 1994). Innovative companies respond to new challenges faster and are better able to exploit new marketing opportunities (Brown & Eisenhard, 1995; Miles & Snow, 1978). Brown and Eisenhard (1995) exhibited that organizations must be able to handle complex and high velocity change to survive in Schumpeterian environment.

Innovation positively effects Organizational Performance (Bierly & Chakrabarti, 1996; Brown & Eisenhard, 1995; Caves & Ghemawat, 1992; Damanpour & Evan, 1984; Damanpour et al., 1989; Hansen et al., 1999; Roberts, 1999; Schulz & Jobe, 2001; Wheelwright & Clark, 1992). Wheelwright and Clark (1992), Bueno and Ordoñez, (2004) exhibited that most important determinant of innovation is innovation and result of competitive environment. Shefer and Frenkel, 2005 explored that innovation results in increasing efficiency, increased productivity, increased market share and increased profits. Innovation helps in achieving differentiated products and increases firm performance. There are also some studies which highlight the negative relationship between innovation and firm performance. Zhou, Tan and Uhlaner (2007) found no impact of innovation on firm performance. Research studies highlighted the impact of innovation on organizational performance (Han et al., 1998; Agarwal et al., 2003; Hult et al., 2004; Zheng et al., 2005; Farhangmehr et al., 2006; Keskin, 2006). Firms that incorporate technical and managerial innovations in the structures of their organizations, have the ability to face challenges of the competitive environment and show superior performance. If organizations want to show superior Organizational Performance then they must enhance their innovative capabilities (Liu, 2013). Johannessen and Skaalsvik (2015) exhibited that innovation plays a key role in enhancing Organizational Performance.

In the light of above arguments, following proposition can be formulated:

RP10. Innovation is significantly related with performance of the organization.

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3 Research methodology

This paper proposes a conceptual framework which highlights the mediating impact of innovation on organizational learning, market orientation and organizational culture with performance of the organization. This paper has written after detailed analysis of several secondary data sources. An extensive literature review of more than 100 research papers written by prominent researchers in the areas of innovation, organizational culture, organizational learning and firm performance has been conducted. Conceptual framework proposed in this paper is also supported by resource based view (RBV) (Mwailu & Mercer, 1983; Wernerfelt, 1984; Rumelt, 1984; Penrose, 1959). On the basis of extensive literature, some propositions have formulated. Literature review has been written in this paper by reviewing the scholarly sources from 1934 to 2014. This paper takes into account all latest researches and identifies research gaps as well.

4 Discussion, Conclusion and Implications

This paper attempts to describe the mediating impact of innovation on organizational learning, market orientation, and organizational culture relating to superior Organizational Performance. This paper proposes market orientation and organizational learning as antecedents of innovation. Zhi-hong (2015) exhibited that organizational learning positively influences innovation.

Wei et al. (2012) exhibited significant relationship between market orientation and innovation. Market orientation helps the firms in identifying latent needs of the customers and helps in introducing new products and services to fulfill the needs of customers.

This paper has discussed the direct impact of market orientation on performance of the organization. Majority literature suggests that market orientation and organizational learning help in gaining sustainable competitive advantage and significantly affect performance of the organization (Jaworski & Kohli, 1993; Narver & Slater, 1990; Brockmand & Morgan, 2003; Dodgson, 1993; Nevis et al., 1995). Market orientation affects performance and fosters innovation (Baker & Sinkula, 1999; Farrell & Oczkowski, 2002; Hunt & Morgan, 1996). This paper also discusses radical and incremental innovation and discusses on the basis of extensive literature that proactive market orientation is significantly related with radical innovation.

Ellis, 2004b suggested that market imperfection hinders in acquiring market intelligence in developing economies and he suggested a positive relationship between market orientation and economic development. When we implement market orientation, then our focus is on our customers thus we learn from our customers. We identify their needs, fulfill their demands and introduce innovative ideas to meet changing demands thus we learn new things. Market orientation enhances learning. According to Slater and Narver, (1994) market orientation provides a solid foundation for value-creating activities.

This paper suggests the implications of adoption of market orientation and organizational learning to adopt innovative behavior. Market orientation needs many resources. All developed countries and mature economies implement market orientation.

This paper discusses types of organizational culture on the basis of model proposed by Cameron and Quinn (1999). This paper discusses adhocracy culture, market culture, clan culture and hierarchy culture and proposes that adhocracy culture significantly affects innovation. Out of all the types of organizational culture, adhocracy culture enhances innovativeness of the firm leading to superior organizational performance. This paper suggests that if organizations want to adopt innovative behavior then they must adopt market orientation successfully and efficiently and must improve its learning processes. To adopt marketing orientation, organizations must foster internal processes to

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collect, disseminate information about needs of customers and must be aware of strengths and weaknesses of competitors, must have complete information about marketing environment and must have a strong network for identifying and meeting the needs of customers and must give active response to market conditions.

Culture can foster or hinder innovation. This paper suggests that organizations must make efforts to adopt adhocracy culture to promote innovation and to survive in the competitive environment. Because adhocracy culture supports risk taking, freedom and flexibility.

This paper describes that when there is support of an appropriate infrastructure of learning and support of managers then organizational learning occurs. Organizational learning promotes technical innovation. Organizational culture must be learning oriented and must focus on improving innovative capabilities of the firm. This paper describes the relationship of superior performance of the organization and innovation. Market orientation, organizational learning and culture of the organization affect performance of the organization through innovation. Obviously innovation deals with introducing new policies, procedures, technical improvements, technical changes, creative ideas, new products and services to gain a sustainable competitive advantage. Innovation leads to superb organizational performance through effective adhocracy organizational culture, organizational learning and implementing market orientation.

There is a need to integrate the resources to implement market orientation, to strengthen their innovative capabilities and to achieve superior Organizational Performance. This paper suggests that performance must be measured for improving innovative capability of the organization and for improving organizational strategies as well. Saunila , Pekkola and Ukko (2014) explored that performance measurement system enhances the innovative capability of the business and helps the organizations in improving their operations and business strategies.

The framework proposed in this paper can be implemented in many types of industries like textile industries or government or non-government sectors. The proposed framework can also be implemented in developing countries to achieve superior organizational performance. Innovation is important for achieving efficiency and superior performance in public and private sectors (Palm , Lilja & Wiklund , 2015).

Learning oriented culture must be adopted, market orientation must be implemented and organizational culture must have positive values that can be adopted by the employees and can help them in improving their performance. All private and government sectors can adopt this framework to improve their performance by carrying out innovative activities. Organizational learning, organizational culture and market orientation help in bringing innovation; and, innovation leads to superior organizational performance. So by adopting strong organizational culture, by focusing and implementing market orientation, by enhancing organizational learning, all sectors whether government, non government or public service companies can introduce innovative products, services and processes and can show superior Organizational Performance.

5. Future Research

This paper presents a conceptual framework which can be empirically tested in many countries. This paper identifies following research gaps:

- There is need to conduct research on mediating impact of innovation on the relationship between market orientation, organizational learning and organizational culture in the context of developing economies especially Pakistan.
- Need to identify the processes through which innovation can significantly influence to organizational performance in developing economies like Pakistan, Malaysia, etc.

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- Need to explore the development of effective organizational culture that significantly supports innovation.
- A further study can be conducted of moderating effects of environmental factors on market orientation, organizational learning and organizational culture in developing economies.

The framework proposed in this paper leads researchers towards new paths for re-examining the significant relationship between organizational culture, organizational learning, market orientation and mediating impact of innovation on all these variables resulting in superb organizational performance.

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