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## Article

# Innovative Culture of the Organization and Its Role in the Concept of Corporate Social Responsibility - Czech Republic Case Study

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## INNOVATIVE CULTURE OF THE ORGANIZATION AND ITS ROLE IN THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY. CZECH REPUBLIC CASE STUDY

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### Abstract

Rivalry among companies is increasing nowadays. Companies try to gain every possible advantage over their rivals and this very often means using a creative approach, for example, drawing from such resources as Corporate Social Responsibility (CSR). The CSR strategy is based on three fundamental pillars - economic, social and environmental (triple-bottom-line), which express the key themes, programs, through which the strategy is implemented. Although, the key corporate responsibility is profit making, the CSR implementation in corporate vision contributes to company's development. CSR can help increase business credibility, but it can also have significant internal effects due to innovation, readiness for future customer demands, employee motivation and loyalty. The primary objective of the paper is to explore organizational culture in connection with the implementation of the Corporate Social Responsibility concept in companies in the Czech Republic. The outputs are supported by the results of an extensive studies conducted in 2013 and 2015, exploring the organizational culture of companies in the Czech Republic. The results obtained are interpreted and compared in the context of development trends described in domestic and foreign scientific publications.

**Keywords:** organizational culture, Corporate Social Responsibility, innovation, open innovation, business strategy

**JEL Classification:** M14

### Introduction

Rivalry among companies is increasing nowadays. Companies try to gain every possible advantage over their rivals and it very often means using other resources besides their legal obligations. One such resource is Corporate Social Responsibility (CSR). CSR mainly

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affects three levels of activities, which are corporate economy, social development and environmental protection. (Fórum dárců, 2005a) Even though the essential responsibility of a company is generating profit, companies can also contribute to society and the environment by implementing CSR into their business strategy. (European Commission, Directorate-General for Research and Innovation, 2011) This way, by demonstrating responsible business strategies with integrating social and environmental aspects and creating value to stakeholders, companies gain a competitive advantage along with achieving their own objectives (Maon, Lindgreen and Swaen, 2009). By implementing CSR another important advantage is saving costs, because company uses less resources and energy. The money saved can be invested elsewhere and it has a direct impact on generating profits. Integrating CSR into common business activities offers places for competent employees. Therefore, productivity rises as well as the company's reputation (Salciuviene, Hopeniene and Dovaliene, 2016). Because the society is becoming more aware regarding environmental issues, ecological activities and saving company resources are appreciated even more. (Fuente, García-Sánchez and Lozano, 2017) A peculiarity in implementing CSR is the principle of voluntariness. So, unlike the legal obligations, CSR cannot be legally enforceable in any way (Fórum dárců, 2005b).

### **1. Research objective and methodology**

The primary objective of the work presented is to examine the organizational culture in connection with implementing the Socially Responsible Company concept in companies in the Czech Republic.

This objective can be divided into the following sub-objectives:

- *C1: To carry out critical literary search in Corporate Social Responsibility*
- *C2: To identify the importance and interdependence of the pro-innovation environment and corporate strategy for the successful implementation of the Corporate Social Responsibility concept in organizations.*
- *C3: To investigate the level of pro-innovation environment in organizations in the Czech Republic by measuring the organizational culture index.*
- *C4: To interpret and compare the results obtained in the context of the development trends described in the available literary resources.*

In connection with the thesis objectives, two research questions were identified examining the organizational culture role in the Corporate Social Responsibility concept implementation process:

- *RQ1: What are the main factors and prerequisites for introducing the Corporate Social Responsibility concept?*
- *RQ2: Does organizational culture support new ideas for companies in the Czech Republic and can we evaluate it as pro-innovative?*

Two hypotheses were set in the measurement framework for the innovation organizational culture index:

- *H1: Innovative culture distribution is the same across gender categories gender.*
- *H2: Innovative culture distribution is the same across age-group categories.*

## 2. Theory of different CSR approaches

To be able to implement CSR successfully into company's business strategy, it must be understood that CSR is a stakeholder-oriented concept. Because of that, a company not only takes responsibility for achieving its objectives, but also the responsibility for stakeholder's expectations. A win-win situation should be attained. It's crucial to know stakeholder's interests and their interests to obtain satisfaction on both sides. An ideal situation represents equality between activities supported by the company management and activities required by the stakeholders. Implementation, in this sense, is considered as change of a company's business and social environment according to mentioned stakeholder interests. (Maon et al., 2009) The triple-bottom-line approach is what we call following the three levels, which are social, economic and environmental. If a company manages to meet stakeholder needs on all levels, it creates a good impact and also gains profit. (Salciuviene et al., 2016) Deciding which stakeholders should be included is quite a difficult task. This dilemma needs to be solved by evaluating a stakeholder's power to influence the company. This is the traditional approach.

Though, there are other different approaches to CSR. One of them is a functionalist approach. It's meant to be used as a tool for social regulation. In other words, combine a company's goals with those of society. Its outcome should be balance between those specific goals. Even in a situation, when the balance already exists, it's taken for granted that CSR will have a future use, for example, as subject to measures. The socio-political approach considers CSR as proof of strong relationships between stakeholders and society. In this context, CSR objectively and transparently reports the politicians program. Therefore, showing this force can cause social change. (Boubakary and Moskolai, 2016)

Next there is the cultural approach. In this one, CSR is perceived as a reflection of a relationship between a company and society, which is described as a combination of cultural, political, institutional and social aspects. Finally, there is the constructivist approach. It considers CSR as a result of cognitive process, during which interaction between society and companies occurs. This way, CSR becomes a negotiated concept, which is constantly evaluated by stakeholders allied to a given company. (Fuente et al., 2017)

## 3. CSR model of interaction

To be able to implement CSR successfully into company's business and make use of the opportunities associated with it, it is necessary to interpret the above-mentioned interests. Because every company is individual in comparison to another, it must be analysed in detail. (Scandeliu and Cohen, 2016) This analysis should cover all responsibility that the given company must have. The main responsibility is to stakeholders. By creating value to them, a company ensures to be paid back. Higher responsibility also points to more quality internal control of the company. It includes fair competition, supervising, risk management and many other mechanisms. These have a direct impact on raising the company's performance. (Yongming and Yini, 2017)

It is recommended to implement responsibility to the government, to prevent political risks. Also, the government is interested in providing many policy objectives, such as sustainable development, environmental protection and other foreign policy. Companies supply this interests simply by its CSR efforts (Steurer, 2010). Responsibility to suppliers is very

important. This relationship is mutually beneficial, because a supplier is getting paid, but the faster this repayment occurs, the more relevant the company's interests for the supplier. (Yongming and Yini, 2017) But this reputation concept also works with a company's perception of the supplier. It is necessary to communicate with supplier to exclude the possible overstating of their capabilities, which could affect the company negatively (Leppelt, Foerstl and Hartmann, 2013).

Because employees are directly involved and they basically execute CSR strategies, it makes them primary considered to be responsible. Their knowledge and decision-making affect work outcomes. CSR impacts the perception of job seekers positively and this is the reason socially responsible companies attract many candidates. Company's overall reputation increases with job satisfaction (Farooq, Farooq and Jasimuddin, 2014).

Customer's purchasing decisions can also show their awareness to a company's activities within CSR. Effective communication with them is required to gain reliable feedback. Thanks to this feedback, it's easier to satisfy their needs and expectations. An important role is also played by customers' emotions (Formánek and Tahal, 2016). But there is also another way to obtain feedback. A customer's buying intentions, loyalty and company's image and reputation, these all provide direct feedback with no actual need to communicate with a customer. (Calabrese, Costa and Rosati, 2015) Determining the activities to be supported and developed by CSR management is usually influenced by the size of the business and its financial stability, but it is still possible to use CSR effectively to improve the image of the business, support the business environment, and develop employees (Myšková and Oborilová, 2015). The most common barriers in creating ideas and introducing innovations in the environment of organizations include inappropriate *organizational culture*.

#### **4. The role of organizational culture in the process of CSR implementation**

It is very difficult to define the concept of organizational culture when there is no uniform definition of the culture term itself. According to Nova and Surynek (2006), culture is a *"dynamic system of explicit and implicit rules created by a group for the purpose of its survival, including attitudes, values, opinions and behavioural norms shared by a group as well as individuals in a group internalised to varying degrees communicated from generation to generation, relatively stable but with the potential to change over time"*. Hofstede (2001, p. 9) defines culture as a *"collective programming of the mind which does not only manifest in values, but also in more outwardly occurring ways: in symbols, heroes and rituals... and distinguishing members of one group of people from another"*.

In this context, the culture of an organization or corporate culture is defined as a *"set of values, standards, beliefs, attitudes and suppositions that, although has not explicitly been formulated anywhere, determines how people behave and act, and how they perform their work. The values relate to what is believed to be important in the behaviour of people and organization. Standards are then unwritten rules of conduct."* (Armstrong, 2007) Drennan explains organizational culture as a way *"how things are done here ... what is typical for the organization, its habits, prevailing attitudes, the patterns of accepted and unaccepted behaviour"* (Lukášová, 2010). Schein (2003) defines organization culture as *"a deeper level of basic assumptions and beliefs that are shared by company employees: acting*

*unconsciously and forming the basis for reflection of the company inwardly as well as outwardly.*" (Pelsmacker, Geuens and Bergh, 2003)

However, organizational culture is primarily an essential organization sub-system and significantly influences its efficiency. As Lukášová (2010) states, *organizational culture influences both creation as well as implementation of the strategy*. On the other hand, the strategy influences the content of organizational culture. When a strategy is transformed into a clear mission, it is presented with a set of goals and procedures to achieve it, people then agree with each other *which creates a culture that matches the organization's strategy*. The relationship between organizational culture and strategy is mutually determinant when the *harmony between strategy and the organizational culture* is a prerequisite for the organization's long-term prosperity. If today's organizations want to compete in the long-term, they must be very flexible, i.e. they have to react very quickly to the various stimuli that comes along. ***Therefore, the strategy must be innovative***, which implies a requirement that the ***organizational culture is also pro-innovative***. Employees' qualifications and motivation also play a significant role in this case (Sokolová, Mohelska and Zubr, 2016). ***A prerequisite for the successful implementation of the CSR concept is the existence of an innovative organizational culture and support for the introduction of their principles in corporate strategy.***

## 5. Innovative level of organizational culture in organizations in the Czech Republic

### 5.1 Methods of measuring the level of organizational culture

There are several methods for measuring the levels of organizational culture, i.e. The Organizational Culture Assessment Instrument (OCAI), The Organizational Culture Profile (OCP), The Organizational Culture Inventory (OCI), The Organizational Ideology Questionnaire (OIQ) and The Organizational Culture Index (OCI).

The latter method (ICI) was applied in the context of relatively extensive research conducted in the Czech Republic. The questionnaire consists of 24 items that characterise the organization – risk taking, collecting, hierarchical, procedural, relationship-oriented, results-oriented, creative, encouraging, sociable, structure, pressurised, ordered, stimulating, regulated, personal freedom, equitable, safe challenging, enterprising, established – solid, cautious, trusting, driving and power-oriented. They are evaluated on Likert's four-point scale with answers from 0 (does not describe our organization) to 3 (describes our organization in most cases). Ellen J. Wallach (1983) in her method for measuring the organizational culture index, she describes organizational cultures in three dimensions: bureaucratic, ***innovative*** and supportive. Bureaucratic culture is characteristic with hierarchical organization system, with a clearly defined line of authorities and it is highly organized. On the other hand, the supportive culture is oriented towards interpersonal relationships. It is characterised by mutual trust, encouragement and co-operation. Finally, the innovative culture that interests us most at the given moment, is dynamic, supports creative work, brings new challenges and encourages risky behaviour. (Franěk et al., 2014)

In the framework of measuring the level of organizational culture in companies in the Czech Republic, the same study was carried out twice (in 2013 and 2015) and was

performed in the form of a questionnaire survey - Czech translation of the Wallach's questionnaire (1983).

The aim of the project was to create a sample of employees from different fields, in both the profit and as non-profit sectors. Because it was not possible to obtain a cross-section sample, the data was collected via collaboration with part-time university students. The fact that these students work in different types of organizations at least three regions of the Czech Republic was used. In total, the questionnaire survey was attended by 1,950, i.e. 1,547 respondents. Statistical analyses were performed using Statistica 8 software.

The first part contained three demographic questions: gender, age and the respondent's level of education. The second part included five questions concerning the characteristics of the organization where the respondent works: ownership of the organization (Czech ownership, foreign ownership, international corporations and public/governmental organizations), size of organization (up to 50 employees, up to 250 employees, up to 500 employees and over 500 employees) and the job position of the respondent (manager - with supervisory responsibility for employees, an employee without supervisory responsibility for employees) and the area of business. The third part contained the Czech translation of the Wallach's questionnaire (1983) – the Organizational Culture Index (OCI).

The research had several limitations. Choosing a respondent was the first limitation. This shortcoming was not so crucial because currently, the Czech Republic has a relatively homogeneous socio-economic composition. Furthermore, the category of employees with a lower level of education was not sufficiently represented. Also the data collection method through part-time students may also have certain limitations. Despite these limitations, we are convinced that our data provides results that broaden our knowledge of organizational culture dimensions in companies in the Czech Republic.

## **5.2 The results of measuring the level of the organizational culture**

The final processing included 1,776 respondents in 2013 and 1,470 respondents in the re-survey (2015). In total, 1,950, or 1,547 respondents, participated in the study. However, 174, i.e. 77 questionnaires were excluded from the sample due to various errors and missing values. The respondents were aged 17-74, or 16-77 years and their average age was 36.3 years (SD = 10.80), or 36.19 years (SD = 10.70). There were 762 men and 1,014 women in 2013, 619 men and 851 women participated in 2015. In both cases, they lived mostly in north-eastern regions of the Czech Republic - the regions of Hradec Králové, Pardubice and also partly in Vysočina (the Czech Republic consists of 14 Regions). The characteristics of the respondents are given in Table no. 1. From these characteristics it can be seen that both investigations are comparable according to the analysed samples.

Table no. 1: Characteristics of the research sample (2013 and 2015)

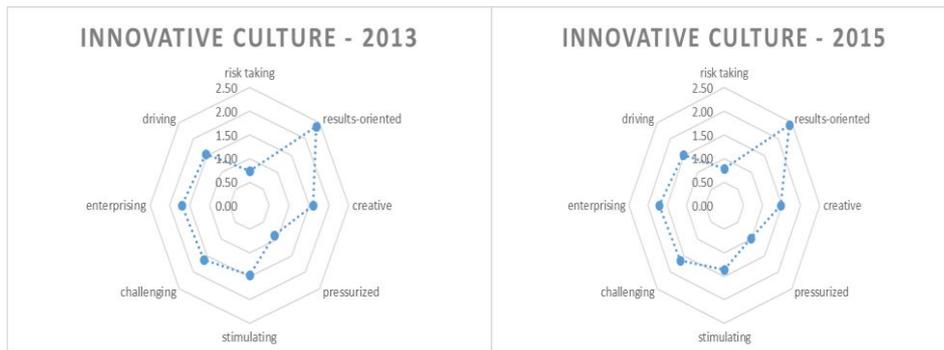
<i>Item</i>	<b>2013</b>		<b>2015</b>	
	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>
<b><i>Gender</i></b>				
Males	42.9	762	42.1	619
Females	57.1	1,014	57.9	851
<b><i>Age</i></b>				
Less than 30	32.4	576	32.4	476
30-40	35.2	625	34.7	510
41 and above	32.4	575	32.9	484
<b><i>Education</i></b>				
Elementary educational level	1.2	22	0.7	11
Skilled worker	9.7	172	6.4	94
Secondary school	42.3	752	48.8	717
Higher professional school	6.4	113	6.5	96
Undergraduate (distance learning)	8.2	145	8.9	131
University degree education	32.2	572	28.6	421

The following part presents the main results of the study carried out. Table no. 2 presents the measured index of organizational culture. It is clear from results that results in 2013 were also confirmed by the study in 2015. Bureaucratic culture (2013: 15.50; 2015: 15.37) has an average highest score of 24 possible points, followed with a short interval by Supportive culture (2013: 14.72, 2015: 14.29), ***the lowest score currently belongs to surveyed Innovative culture*** (2013: 11.96, 2015: 11.89). Therefore, the results show that the respondents in the organizations they work in, mostly see bureaucratic and supportive culture characteristics, unfortunately these are less innovative.

Table no. 2: The organizational culture index in 2013 and 2015

	<b>2013</b>	<b>2015</b>
<b><i>Bureaucratic culture</i></b>	15.50	15.37
<b><i>Innovative culture</i></b>	11.96	11.89
<b><i>Supportive culture</i></b>	14.72	14.29

Figure no. 1 and Table no. 3 show the evaluation of the respondents of the individually monitored items of the innovative organizational culture. The partial results clearly show that the 2013 study was confirmed in 2015.



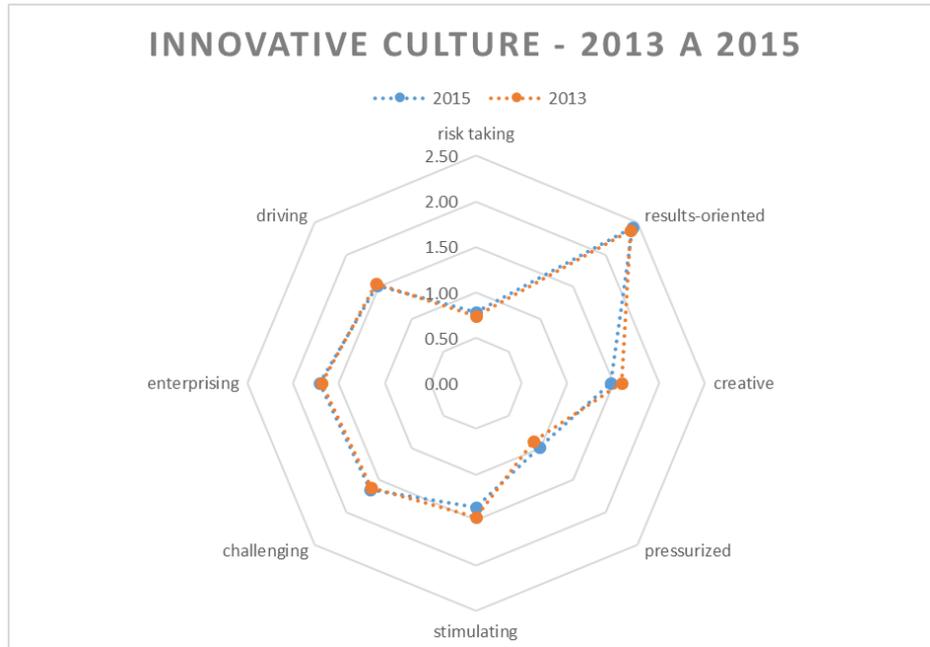
**Figure no. 1: Evaluation of the characteristics of the innovative organizational culture in 2013 and 2015**

**Table no. 3: The organizational culture index in 2013 and 2015**

	risk taking	results-oriented	creative	pressurized	stimulating	challenging	enterprising	driving	INDEX
<b>2013</b>	0.74	2.38	1.60	0.89	1.47	1.62	1.69	1.55	11.96
<b>2015</b>	0.78	2.42	1.47	0.99	1.36	1.65	1.71	1.52	11.89

The obtained values of characteristics in the individual dimensions are quite balanced. There were only more significant fluctuations regarding the innovative culture, for example in 2013, the average value was 1.49 points, the lowest score was in connection to the risk-taking characteristic with 0.74 points and the highest result-oriented 2.38 points. From the characteristics of innovative organizational culture, according to Wallachová, the respondents most strongly perceived the results-oriented (2.38 or 2.42). On the other hand, the least perceived characteristics included risk-taking (0.74 or 0.78) and pressurised (0.89 or 0.99) in their organizations. Therefore, the results-oriented characteristic significantly increased the value of the Innovation Culture Index in the research sample, despite this fact, the Innovative Organizational Culture index is relatively low in the surveyed organizations.

From the following graph (Figure no. 2), it is even more evident that the results are almost the same in both studied years, including the partial evaluation of the individual characteristics of the innovative organizational culture.



**Figure no. 2: Evaluation of the characteristics of the innovative organizational culture**

### 5.3 Validation of the established hypotheses

The surveyed sample includes 1,776 respondents in 2013, of which 762 (42.9%) were men and 1,014 (57.1%) were women. In 2015, 1,470 interviewees participated in the study, of which 619 (42.1%) were men and 851 (57.9%) women. The respondents were divided into three age groups up to 29 years, 30 to 40 years and 41 years and older. The surveyed sample includes a total of 1,776 respondents in 2013, representation of three age categories is 32.4%, 35.2% and 32.4%. In 2015, 1,470 respondents participated in the study with age groups represented as follows: 32.4%, 34.7% and 32.9%. The sample distribution by age and age categories is meaningful.

In order to verify whether there are statistically significant gender differences in the evaluation of the innovative organizational culture investigated by us, we chose the Mann-Whitney U test generally used for evaluating unpaired attempts, comparing two different sample sets, in this case it is a set of evaluation of men and women. The zero hypothesis is rejected sig <0.05. In order to verify whether there are statistically significant age differences within the evaluation of the investigated innovative organizational culture, the Kruskal-Wallis test was chosen. The Kruskal-Wallis test is a generalisation of the non-parametric Mann-Whitney test for more than two compared groups. As well as the Mann-Whitney test, it does not test the consistency of specific parameters, but the consistency of the selective distribution functions of the compared sets with the key assumption being the independence of observed values. The null hypothesis was rejected sig <0.05. The results are shown in Table no. 4.

Table no. 4: Hypotheses tests

Null Hypothesis	Test	Year	Sig.	Decision
<i>The distribution of innovative culture is the same across categories of gender.</i>	Mann-Whitney U test	2013	0.000	Reject the null hypothesis.
		2015	0.148	Retain the null hypothesis.
<i>The distribution of innovative culture is the same across categories of agegroup.</i>	Kruskal-Wallis	2013	0.005	Reject the null hypothesis.
		2015	0.000	Reject the null hypothesis.

**Gender differences** are significant in Innovative Culture in 2013. The survey shows that men assess the characteristics of innovative culture in their organization as more visible. The average value of the innovation culture index for men is 12.62 points and for women 11.47 points. In the 2015 re-survey, gender differences were not demonstrated.

**Age difference** is significant in an innovative organizational culture. The most significant difference is in the youngest group (above the expected average). The explanations may vary, for example, younger people are more involved in organizations with innovative culture, and older people are generally more involved in organizations with a traditional bureaucratic culture. It can also be due to the fact that young people perceive the culture of organizations as innovative, older people have been in the organization longer and have their stereotypes, they do not perceive the company’s culture as innovative.

**6. Open innovation as a tool to increase organizational efficiency**

The above-presented results of organizational culture research in companies in the Czech Republic show that, despite the significant innovation potential of the Czech Republic (Sokolova and Zubr, 2015), employees perceive organizational culture as bureaucratic or supportive rather than innovative. It is a shame that the potential here is not used. An option is the open innovation concept.

If an organization is to use the creativity of innovative solution makers while reducing the cost of innovation development and at the same time maintaining the necessary innovation pace defined by the development in the field of its business, it must **open its innovation processes**, i.e. to admit crossing-over the organization’s traditional boundaries, and to allow its intellectual capital and creative ideas to flow freely from the organization, and at the same time, similar external assets to flow from the outside to inside of the organization and therefore, enhance the efficiency of its innovation activities. (Goffin and Mitchel, 2005; Chesbrough, 2006; Hamel and Green, 2007)

- *Inward* opening offers the use of external entities’ benefit to provide new products and services, which the organization cannot provide within its own capabilities.

- *Outward* opening facilitates the organization in engaging in the innovation activities of other entities and to use both ideas and resources efficiently, for which it does not have the sufficient use option in its internal environment.

Main principles of open innovation include (Dvořák, 2006; Pitra, 2006; Mohelská and Sokolová, 2014):

- Not all smart people work for us - we need to work with smart people inside as well as outside our company;

- External research and development (R & D) can generate great values; to use them, we need internal R & D;
- For R & D to make us a profit, we do not have to initiate it ourselves;
- To develop a better business model is more important than being first on the market (the need for mutual influence of product, process, organizational and marketing innovations);
- If we make the best use of both internal as well as external ideas, we can win;
- We need to earn on the fact that our intellectual property is used by others and we need to buy the innovation potential of others if it can support our business model (formation of innovations based on teamwork, i.e. also the co-operation with suppliers, purchasers etc.

Open innovation policy - and the related emergence of innovative business ecosystems - is causing the fact that in *today's global economy, the focus of competition from the combat between entities shifts into rivalry between alliances of the co-operating entities.*

*Therefore, introduction of innovations can be considered a crucial condition for increasing the competitiveness of the company. Improving the company's innovation ability is then seen as a necessary prerequisite for increasing competitiveness. For the implementation, it is necessary to create a pro-innovation climate and the support even has to be declared within the strategic business documents.*

#### **Conclusion - CSR in business strategy**

CSR brings innovation to the current business strategy. It focuses on increasing the legitimacy and reputation of the company. (Boubakary and Moskolai, 2016; Mohelská and Sokolová, 2016) Legitimacy is described as how the company accesses its goals, how it treats the others and if its approach is consistent enough. (Bachmann and Ingenhoff, 2016) The reputation increases despite of decreasing resources requirements. These different demands usually tend to have a positive impact on company's strategy, especially in terms of differentiation. Therefore, implementing CSR into the business strategy impacts the value of the company as well as its operations. CSR is very often considered as a differentiating tool. Therefore, CSR is crucial in determination and implementation of differentiating strategy. It is thought about CSR being a source of value creation for the company. Basically, based on perceiving this created value by a customer and therefore creating economic value. (Boubakary and Moskolai, 2016)

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