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Article

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Cogent Business & Management

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Suggested Citation: Silwal, Prem Prasad (2022) : Corporate cultures and financial performance: The mediating role of firm innovation, Cogent Business & Management, ISSN 2331-1975, Taylor & Francis, Abingdon, Vol. 9, Iss. 1, pp. 1-20, <https://doi.org/10.1080/23311975.2021.2010480>

This Version is available at:

<https://hdl.handle.net/10419/286940>

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To cite this article: Prem Prasad Silwal (2022) Corporate cultures and financial performance: The mediating role of firm innovation, Cogent Business & Management, 9:1, 2010480, DOI: 10.1080/23311975.2021.2010480

To link to this article: <https://doi.org/10.1080/23311975.2021.2010480>



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Received 1 June 2020
Accepted 10 November 2021

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BANKING & FINANCE | RESEARCH ARTICLE

Corporate cultures and financial performance: The mediating role of firm innovation

Prem Prasad Silwal*

Abstract: The purpose of this study is to examine the association between cultural factors and the financial performance of the firm. The study includes power distance, clan culture, uncertainty avoidance, firm innovation, and market culture as independent variables and financial performance as a dependent variable. This study relies on a primary data collected from 216 respondents from various organizations in Nepal. Data were analyzed using structural equation modeling. The study results show that organizational culture has a significant impact on financial performance. Among the five cultural dimensions, firm innovation, and uncertainty avoidance have a strong direct impact on the financial performance of the firm whereas market culture has an indirect effect on the financial performance of the firm. This research encourages Nepalese firms to pay attention to the conducive working environment, especially the atmosphere of market culture, innovation, and uncertainty avoidance.

Subjects: Sports and Leisure; Research Methods



Prem Prasad Silwal

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PUBLIC INTEREST STATEMENT

Globalization has emphasized organization culture as a crucial factor in the firm's financial performance. Strong organization culture is found to be significant to advance the working environment and gain high performance. Core corporate culture includes the well-being of staff, society, and surroundings through the self-guided corporate social responsibility. The strategies to adopt self-guided culture are used to enhance the life standard of employees and the society. This study includes the dimensions of clan culture, power distance, market culture, firm innovation and uncertainty avoidance as conduits of organizational performance. The study identifies that uncertainty avoidance and firm innovation are the key elements of firms' financial performance. Nepalese firms provide fearless working environment to the employees leading the firm to produce quality goods; firm innovation provides aesthetic value to employees; fair dealing (instructed) and proactive staffs enhance financial performance of the firm. With the financial benefit, firms can provide public benefit after contributing certain amount as corporate social responsibility.

Keywords: Financial performance; innovation; uncertainty avoidance; power distance; cultural dimensions

1. Introduction

Corporate culture as an antecedent has received increasing scholarly attention in the finance literature (Outa & Kutubi, 2021; F. Zheng et al., 2021). Scholars have recognized that cultural antecedents are important in driving financial performance of firms (De Mooij & Hofstede, 2010; Reino et al., 2020). A wide array of works (Calantone et al., 2002; Hofstede et al., 1990; Singh et al., 2019) claim that solid corporate cultures enhance firm performance by maintaining behavioral reliability. Business organizations, in the current world, are competing to survive and sustain in the market. Workforces are looking for ways to be more imaginative, innovative, and competitive. Wong et al. (2012) argue that the development of corporate culture is based on organizational internal aspects as well as external factors of the environment of the organization. J. B. Barney (1986) indicates that organizational culture is a key strategic variable that affects organizational competitive advantage. Indeed, organizational culture is a widely recognized valuable, rare, inimitable and non-substitutable resource in the resource-based view of the firm (J. Barney, 1991). Organizations with strong cultures generally are considered to have consistent financial performance than firms with weak cultures (Zuckerman, 2002). Existing literature indicates organizational culture as one of the important factors that influence firms' financial performance (Mahfouz & Muhumed, 2020; Waterman & Peters, 1982; Xia et al., 2015; Yesil & Kaya, 2013). Figure 1 presents the conceptual framework of the paper.

After the organizational culture research began in the 1980s, the focus shifted to how to apply the cultural study to organizational management. Organizational cultures, in current management theory and strategy, are sought more after from the business community and academic environment. It is believed that the competitive advantage of the organization not only relied on its capacity but also on its ability in the organizational culture.

Waterman and Peters (1982) defined that organizational culture is basically a complex set of values, beliefs, and symbols that defined a way that a firm conducts its business transaction. In other words, culture has prevalent effects on a firm because a firm's culture not only explains who its stakeholders such as employees, customers, suppliers, and competitors are but also defines how a firm interacts with these factors (Louis, 1983; Yun et al., 2020). The culture of any organization has been painstaking as a conclusive factor in determining and has an enormous effect on the assembly and strategy of a firm. A rich corporate culture, like an artistic strategy, guides the firm through its people, guiding sentiments and discernments toward a shared aim, increasing stimulus, imagination, and attachment among employees, and systematizing each task in its proper order. Its role has been so important that several researchers have come to believe that a culture that pays attention to the values and dignity of employees strengthen the feelings of contribution and performance of an organization (Galarotis & Karagiannis, 2020; Hofstede et al., 2010).

Organizational culture drives the firm to be inventive in order to survive and boost financial performance in an unpredictable environment (Drucker, 1954; Rogers et al., 2014). Hurley and Hult (1998) state the firm innovativeness from a shared perspective, that is creative in methods of operation and openness to new thoughts the facet of organizational culture. Through the development of new goods and the discovery of new methods to operate things, a corporate culture that encourages innovation boosts creativity. Employee norms are fostered in many business cultures (O'Reilly, 1989; Zhao et al., 2018) and these norms aid the innovation process. Furthermore, corporate culture encourages staff coordination and cooperation. Firm performance replicates the extent of goal achievement in the organization workforce, marketing, capital, and financial matters (Marcoulides & Heck, 1993). Maltz et al. (2003) noted that conducive organizational culture leads to the firm's financial efficiency. The most common measures of organizational performance (Abu-Jarad, Yusof & Nikbin, 2010) are financial growth and profitability. The general

conclusion of the studies is that financial performance is determined not only by a specific factor but also by several different fundamental variables.

Nepal provides a different context for examining the empirical relationships of different types of culture and their financial performance. While most of existing studies have been examined in western contexts, there have been limited studies conducted in developing contexts, such as Nepal. Nepal is a small country with less market competition than in other developed countries. Moreover, the type of organizational culture is also likely to be different in Nepalese organizations than in other countries. Therefore, extrapolation of results from other contexts may not necessarily be applicable to Nepal. Few scholars have examined the Nepalese context, for example, Gyanwali and Walsh (2020) studied few antecedents of financial performance and Adhikari (2010) investigated the relationship of training culture with firm performance. Given that Nepal follows a differentiated culture from other studies that examine the relationship between culture and firm performance, this investigation is warranted. This study, therefore, aims at analyzing the dimensions of financial performance with the underlying behavior of fundamental components by estimating descriptive and causal-comparative statistics tools in the Nepalese context. To sum up, this study deals with the following issues:

RQ1: What is the relationship between cultural dimensions and financial performance?

RQ2: Are there equal contributions of power distance, and clan culture on financial performance?

RQ3: What are the roles of market culture and the firm innovation to financial performance?

RQ4: Is the uncertainty avoidance largely impact financial performance of the firm?

The remainder of this paper is organized as follows: Section 2 describes the theoretical background of the study and section 3 explains the research methodology. It includes the selection of respondents of this study, sample size, and model to be estimated. Section 4 provides a presentation and analysis of the data. Finally, conclusion, implications and future research are presented in section 5.

2. Theoretical background

Calantone et al. (2002) conducted a survey from a senior executive from a broad range of US industries. A survey of 400 R&D vice presidents was randomly selected from the CorpTech Directory of Technology Companies. Firm innovativeness was used as one of the moderating variables that led to financial performance. The result reports that organizational culture is conceptualized as a second-order construct. Its effect on firm innovativeness, which in turn affects firm financial performance.

Dianti and Tayebi (2011) observed the impact of organizational culture and the value of profits in the firms listed in the Tehran stock exchange. The result of 8585 firms revealed that firm innovative, market culture, and power distance have a direct impact on the firms' financial performance. Similarly, Sackmann (2011) conducted a study on the relationship between the characteristics of corporate culture and firm performance among communication and technology firms. The study employed Dension's organizational culture survey employee participation in work, sense of duty and compliance with four measures of performance such as return on asset, return on equity, the profit margin on sales and ratio of operating expenses to operating income. The result shows that there is a significant positive relationship between each of the variables of the cultural characteristics and return on asset, return on equity, and profit margin on sales. It also reveals that there is an inverse relationship between each of these variables with the ratio of operating expenses to operating income.

Zehir et al. (2011) surveyed a study on the effects of leadership styles and organizational culture over firm performance aimed to explore the relationship between leadership styles and organizational performance and its role in the performance of production, telecommunication, and financial institutions. The study comprised 295 respondents from these companies on its questionnaire

survey. The result shows that the organizational cultural variables have a positive direction on financial performance. Yildiz (2014) conducted a study on the relationship between organizational culture and the job performance of the agricultural sector with the respondents of 180 professionals working in California. The result shows that there are significant positive relationships among the factors (participation, involvement, adaptability, and duty) of corporate culture. Ghanavati and Samadi (2012) in the study of the impact of market orientation and organizational culture on the performance of small and medium enterprises in Tehran have observed the impact of market orientation and organizational culture on firm performance. The result confirms the positive direction of organizational culture, customer interest, market orientation and financial performance of sample firms.

Similarly, Cao et al. (2015) studied the impact of corporate culture on the integration of supply chains. The study comprised 317 respondents in ten different countries from manufacturing sectors and it employs rational and power distance to measure corporate culture and the indicators of internal combination and tradition of homogenizations to measure the intermingling of supply chains. Its result shows that rational culture has a direct relationship only with internal integration and custom homogenizations.

In addition, Golafzani and Chirani (2016) have examined the relationship between organizational culture and the financial performance of manufacturing firms based on a questionnaire survey. The organizational dimensions, including the clan culture, firm innovative, market culture, and power distance and the financial performance were tested by using spearman's correlation coefficient. The result discloses that each of these dimensions has a positive significant impact on financial performance.

Khedhaouria et al. (2020) examined the connections between important aspects of organizational culture (such as adhocracy, clan, hierarchy, and market) and entrepreneurial orientation- EO (such as innovativeness, risk-taking, and proactiveness) and their effects on small business performance. Their study comprises 106 small Tunisian enterprises provides empirical evidence for the mediating effect of EO in influencing small-firm performance by developing innovative and proactive behaviors through adhocracy and market cultures. The findings show that adhocracy and market cultures that support the inventive and proactive behaviors needed to improve financial performance of small businesses. Mahfouz and Muhumed (2020) investigate the relationship between organizational culture and financial performance by performing a literature review and discovered that there are various sorts of organizational cultures, all of which have an impact on an organization's performance.

Reino et al. (2020) used cross-sectional data from 19 SMEs and major service and production enterprises with 2256 respondents to conduct a study on organizational culture and financial performance. Organizational cultures were mapped using a study based on the Competing Values Framework (CVF). The study used confirmatory factor analysis and non-parametric Spearman rank correlation. The findings reveal that organizational culture types are intertwined, and that theoretical CVF opposites are not mutually exclusive. Strong correlations exist in between clan and adhocracy cultures. In addition, as compared to earlier studies, this survey found a stronger correlation between market and hierarchy cultures. The findings also reveal that cultural factors like clan, adhocracy, and market types have a substantial positive relationship with financial performance. Farooq et al. (2020) unfold the role of national culture in determining the firm financial performance of 7623 non-financial firms from 13 Asian economies and fixed effect model applies to estimate the regression. As a result, firms with high-power distance and individualism have lower financial performance, whereas firms with high uncertainty avoidance have higher financial performance, as this dimension reflects assertive, uncertainty-resolving, and cooperative behavior.

Management commitment, system thinking, open area, experimentation, and information sharing, and integration are among the organizational learning skills. The factors were measured using a questionnaire. The hypothesis was investigated using a descriptive and correlational research approach. The findings imply that organizational learning capacities, in all forms, have a considerable positive impact on company innovation and financial performance. Organizational innovation also has a substantial positive impact on the firm's financial success (Taheri, 2021).

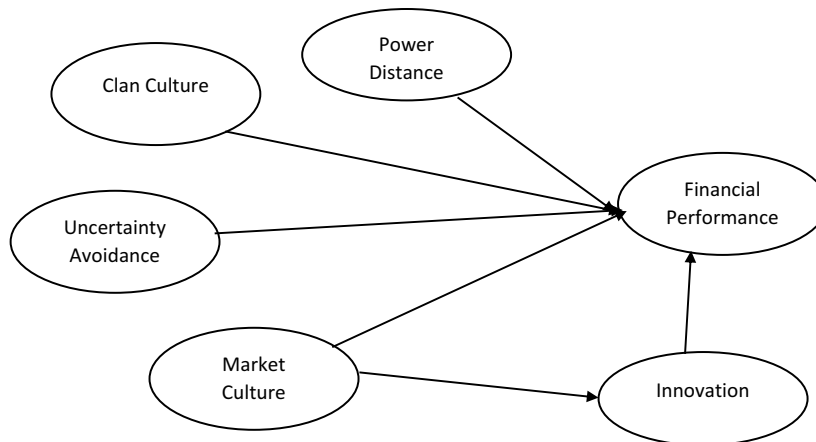
Empirical studies investigating dimensions of organization culture are still scarce, especially in relation to underdeveloped countries. Some of the studies cited in this review may not be robust enough because of small sample size for a specified methodology. Many studies comprised four dimensions, however, interlink of market culture, innovation and financial performance is lacking. Our study overcomes some of these limitations. Based on it, the proposed framework is described in the next section.

2.1. Conceptual framework

Organizational culture is conceptualized in this study using a five-dimensional framework: power distance, firm innovative, clan culture, market culture, uncertainty avoidance, and financial performance. The term "power distance" refers to well-defined processes, procedures, and structures, as well as a well-functioning organization (Cameron, 2004). Clan culture is the system of an organization with a family place with an extended conducive working atmosphere. Firm innovation capability is characterized as the ability of firm to deliver new technological process to remain competitive and gain financial performance of the firm. Market culture is characterized as a result-oriented workstation with emphasis on winning the competition, increasing share price and market leadership. Uncertainty avoidance is the character that minimizes uncertainty, unusual situation and ensures strict rules and laws, safety, and security measures and on the philosophical and religious level by a belief in absolute truth.

The aim of this study is to identify the relation between organization culture and financial performance of the sample firms. For this purpose, taxonomies of organization culture are considered as explanatory factors and financial performance as dependent variable. Organization culture scales are based on taxonomy proposed by (W. Zheng et al., 2010) and these scales were tested by employing confirmatory factor analysis in China. J. B. Barney (1986) argued that organizational culture is a source of sustainable competitive advantage if that culture is valuable rare and imperfectly imitable. Kim et al. (2004) reported that the components of organizational culture were found to be significant on firms' financial performance.

Figure 1. Conceptual framework.



Basically, deriving the hypothesis from (W. Zheng et al., 2010), the study is with the view that each of the five organizational cultural characters will relate to firm performance. The main hypothesis of this study is organizational cultural traits influence firm performance. Each organizational cultural trait and its relationship to financial performance are briefly explained in the section below.

There are five organizational dimensions employed in this study; power, clan, innovation, market, and uncertainty avoidance based on the study of (Yesil & Kaya, 2013). Market cultures keep organizations close to the market place (Ngo & O’Cass, 2012), through its client focus service and increase innovation in production that leads to financial performance (Kumar et al., 2011). Thus, market-oriented culture has been found to be positively associated with new product performance (Ibrahim et al., 2016). In other words, market culture leads the firm to increase its exploratory capabilities through innovation resulting in financial performance (Wang et al., 2015). Based on these concepts, following hypotheses are developed:

2.2. Hypothesis development

2.2.1. Power distance and financial performance

Power distance refers to the extent to which a firm accepts the fact that power in the institutions and organizations are distributed unequally (Farh et al., 2007; Hofstede, 1980). Power distance affects financial performance in different ways. First, higher power distance represents a tightly structured organization and is indicative of bureaucracy (Lee & Antonakis, 2014; Ng, 1977). In a highly bureaucratized organization, even simple deviation from organizational routines have to go through a process of approval from the hierarchy. This usually slows organizational response to novel demands from customers. Therefore, organizations may not be as responsive as they would like to, which ultimately is likely to harm their performance. Second, highly bureaucratic organization (as reflected by high-power distance) may lack the flexibility needed to respond to dynamic customer requirements. For example, the strategy literature is replete with examples, where lack in flexibility may harm performance of organizations (Eisenhardt et al., 2010). In addition, previous studies have argued that power distance has a negative impact on the financial performance of firms (e.g., Fekete & Bocskei, 2011). Consistent with these arguments, the first hypothesis is presented as follows:

H1: There is a negative association between power distance and financial performance.

2.2.2. Clan culture and financial performance

Clan culture refers to a culture that considers interpersonal relationships, caring support, and harmonious coexistence to be basic assumptions (Fakhri et al., 2021; Liao, 2018). Clan culture is likely to affect financial performance mainly because of two reasons. First, clan culture represents an organization that values loyalty, support, commitment, cooperation, participation and teamwork among employees working in organizations (Yesil & Kaya, 2013). In organizations with clan culture, employees are likely to share novel ideas and exchange their knowledge about different processes that they may have acquired elsewhere, which then reinvigorates the knowledge base of the firm (March, 1991; Suppiah & Sandhu, 2011). As the knowledge base of the firm increases, the capabilities of the organizations is also likely to increase, which in turn enhances firm performance (Asiaei et al., 2021).

Second, existing studies show conflicting results, necessitating further empirical work. For example, Ogbonna and Harris (2000) find that clan culture is not positively associated with financial performance. However, a more recent study by Fekete and Bocskei (2011) finds a strong positive association between clan culture and financial performance. The theorizing in this paper also expects a positive relationship between clan culture and financial performance due

to the reason mentioned above. Based on these arguments, the second hypothesis is formulated below:

H2 There is a positive association between clan culture and financial performance.

2.2.3. *Market culture and financial performance*

Market culture refers to a results-oriented organization, where the emphasis is on gaining competitive advantage by getting job done (Cameron & Quinn, 2011). In organizations that have a market culture, it is likely that the focus will be on maintaining close contact with customer and producing timely results (Waterman & Peters, 1982). This focus on achieving market-oriented results is likely to push the organization to achieving results both in the short term and long term. Therefore, it is likely that a market culture will drive the financial performance of firms.

Furthermore, an organization that has a market culture is likely to be able to respond to dynamic shifts in the environment. This is akin to the idea of developing dynamic capabilities (Teece et al., 1997). To meet the requirements of the market, firms with market culture are likely to engage in simultaneous exploration of new ideas, while exploiting their existing knowledge base. This is often referred to as ambidexterity in the literature (Raisch & Birkinshaw, 2008; Sharma et al., 2020). Firms with market culture are also likely to focus on both efficiency and effectiveness, which is likely to lead to positive firm performance. Based on these arguments, the third hypothesis is presented below:

H3: There is a positive association between market culture and financial performance.

2.2.4. *Uncertainty avoidance and financial performance*

Uncertainty avoidance refers to the degree to which organizations avoid uncertainty and ambiguity in the environment (Hofstede et al., 2010). Organizations with a low degree of uncertainty avoidance culture are likely to respond to change and obscurity in better ways (Sale, 2004). Conversely, organizations that are high on the uncertainty avoidance scale are likely to be uncomfortable with situations that represent change and may indeed be threatened by such situations. Previous literature has highlighted that uncertainty avoidance is likely to have a significant impact on different proxies of financing decisions (See Farooq et al., 2020). This is mainly because organizations that avoid uncertainty to a high degree are less likely to make investments in prospects that look uncertain or that have a high degree of risk. For example, such organizations are less likely to invest in digital technologies, which obscure them from adapting to dynamic environments (Frankenberger et al., 2019).

In contrast, organizations that tolerate uncertainty are more likely to make investments that are risky but are likely to underpin their adaptability. Such organizations are also more likely to be receptive in conditions of high dynamism and complexity. Previous studies have demonstrated that organizational culture is importance in determining the financial efficiency of the firm (e.g., W. Zheng et al., 2010). It is likely that organizations that are receptive to uncertain conditions are likely to be able to change their existing processes and make better decisions. Concurrent with these arguments, the fourth hypothesis is presented as follows:

H4: There is a positive association between uncertainty avoidance and firm performance.

2.2.5. *Firm innovation and financial performance*

Innovation capability is the most important factor in organizational performance (Mone et al., 1998). There is a wide literature that suggests that the firm must be innovative to gain

a competitive advantage to sustain and increase financial performance (Anning-Dorson, 2018; Teece et al., 1997). Firms that are innovative are more likely to address the changing needs of the marketplace, and offer differentiated solutions than other players (Buccieri et al., 2021). Based on these arguments, in the existing literature, the fifth hypothesis is presented as follows:

H5: There is a positive association between firm innovation and firm performance.

2.2.6. *The mediating effect of firm innovation in the market culture—financial performance relationships*

Firm innovation is likely to partially mediate the relationship between market culture and financial performance. This is because a high degree of market culture means that firms are more responsive to the needs of the market. Innovation offers a differentiated means by which firms may respond to market in novel ways. Whilst innovation may not be the only mechanism through which market culture may lead to financial performance of firms, it is likely that firms that embrace market culture and are innovative will achieve performance over other firms. For example, Singh et al. (2019) argue that market culture affects innovative capabilities to let the organization continue and thrive better than their counterparts and that in turn results in prospering financial performance (De Luca & Atuahene-Gima, 2007). Thus, firm innovation is likely to positively mediate the relationship of market culture with firm performance. Thus, the sixth hypothesis is presented below:

H6: Firm innovation mediates between market culture and financial performance.

3. Data and methodology

The census of this study contained staffs of different organizations situated in Bagmati region, Nepal. There is a belief in a “virtuous loop,” in which committed organizational staff work hard to make customers happy, resulting in increased financial performance. Many areas of management literature (for example, (Booth & Hamer, 2009)) adopt this strategy, particularly in the service profit chain sector (Haskett et al., 1997). Based on this commonly accepted practice, a two-stage distribution scheme of questionnaires is utilized. In the first stage, a list of non-financial firms is prepared listed in Nepal Stock Exchange. The list was further categorized based upon the type of product the organization produced. There are 12 hydropower, 4 hotels, 18 manufacturing, 4 trading and 3 in others at the mid of July 2019. The staffs working in different organizations inquired through telephone survey to their respective human resource department. Further, it was

Table 1. Questionnaire distribution

S.N.	Strata	Number of companies	Number of staffs selected for surveys	Number of responses	Response percentage
1	Hydro	4	85	54	63.53
2	Hotel	1	40	32	80.00
3	M & P	6	150	76	50.67
4	Trading	2	35	22	62.86
5	Other	1	40	32	80.00
	Total	14	350	216	61.71

The table displays the sampling framework for survey of staffs and executives on organizational culture and financial performance of Nepalese firms. A total of 350 questionnaires were distributed among the staffs of the selected firms and 216 were regained.

Table 2. Demographics of the respondents

Demographics	Category	Respondents	% of responses
Gender	Male	138	63.9
	Female	78	36.1
Age	< 30	42	19.4
	31 to 40	90	41.7
	41 to 50	75	34.7
	> 50	9	4.2
Education	Intermediate level	21	9.7
	Bachelor level	90	41.7
	Master level	78	36.1
	Mphil/PhD level	27	12.5
Level of staff	Assistant	39	18.1
	Officer	57	26.4
	Manager	96	44.4
	Senior manager	24	11.1
Work experience	< 3 years	18	8.3
	3–5 years	72	33.3
	6–10 years	102	47.2
	>10 years	24	11.1

also searched from the annual report and website of the respective companies. However, some of them did not communicate the actual number of staffs. In this case, an average of a particular cluster was cast off to compute the entire census. In this way, the total number of staffs working in the aforesaid organizations expected to be 1800 for the year 2019. Based on initial judgment, the questionnaires were distributed to 14 companies.

Three types of organizations make up one organization, and this number is used to split all of the different types of organizations, generating the number 14. Out of a total of 14 firms, four were chosen from hydropower, one from hotels, six from manufacturing, two from trading, and one from other businesses. To ensure that the sample proportion matched to the population, 14 firms were chosen at random from the sampling frame. The second step involves sending out 25 sets of questionnaires to employees and executives at each of the 14 companies that were chosen for this study. The finance head then supports the distribution of questionnaires proportionately to each of the employees with identity code of five and multiples of five.

Three hundred and fifty questionnaires were issued, of which 232 were retrieved and 16 were returned incomplete, therefore they were not included in the analysis. The total distribution and responses have been presented in [Table 1](#). Thus, the response rate of this study is 61.71 percent of the total distribution. The distribution of questionnaires to the organization, on the other hand, does not exactly balance with the total number of employees. This limitation should be considered before drawing conclusions. Because some employees were in a rush when filling out the surveys, they may not have understood the premise of a survey before replying. This could have introduced some bias and error. While interpreting the data from this study, this restraint should be exercised with great care. [Table 2](#) presents the demographics of the survey respondents.

After employing structural equation modeling (SEM), the study used a causal comparative research approach. Structural Equation Modeling could be used to investigate the causal links between the predictive and dependent variables (Hair et al., 2006). SEM is used to specify,

Table 3. Construct with underlying items, reliability and validity statistics

Constructs	Items	Std. loading
	(Cronbach's alpha = 0.781, CR = 0.872, AVE = 0.776)	
Power distance	People in higher position should make most decisions without consulting people in lower position	0.763
	People in higher position should avoid social interaction with people in lower position	0.971
Clan Culture	(Cronbach's alpha = 0.871, CR = 0.903, AVE = 0.609)	
	Our organization believes much in collaborative approach than our competitors in average	0.858
	We believe strong bonds, loyalty, tradition and common generality among employees in our organization	0.780
	Our organization provides conducive working environment so that we can groom easily	0.762
	We believe that success is within the framework of addressing the needs of the clients and caring for the people	0.753
	Managers involve employees in decision making process of the company	0.732
	We believe that it is improved the level of team work among the employees.	0.791

(Continued)

Constructs	Items	Std. loading
Market Culture	(Cronbach's alpha = 0.910, CR = 0.928, AVE = 0.650)	
	Our organization provides better value to customer than our competitors in average	0.757
	Our organization's promotion strategy is stronger than our competitors in average	0.832
	We believe in market penetration and stocks that are key to success	0.734
	We believe in measuring client preferences, improving productivity, creating external partnership, involving customers and suppliers	0.816
	We believe that it is increased the level of customers satisfaction over the last 5 years	0.811
	We believe that it is improved the level of innovations of the company's product over the last 5 years	0.832
	We believe that the level of customers complaints has been reduced over the last 5 years	0.849

(Continued)

Table3. (Continued)

Constructs	Items	Std. loading
Uncertainty Avoidance	(Cronbach's alpha = 0.929, CR = 0.940, AVE = 0.610)	
	Our organization provides written structures and procedures in detail	0.784
	Our organization writes all the rules and regulations clearly so that everyone can understand as he or she expect	0.835
	Standard working procedure is considered a very important norms in my organization	0.734
	There is a high emphasis placed on company rules, obligations and regulations at our firm	0.845
	Employees deals with each other fairly relying on the rules, regulations and values	0.765
	The rules of the company provide clear instructions, process and procedures for us	0.804
	Employees respect each other when making crucial decision	0.778
	Our staffs are required to be punctual in all meetings of the firm	0.795
	The company acknowledges individual employees' strength and credentials	0.749
	The company ensures clear instructions are availed to staff concerning their duties and responsibilities	0.784

(Continued)

Constructs	Items	Std. loading
Firm innovation	(Cronbach's alpha = 0.890, CR = 0.940, AVE = 0.574)	
	Our companies frequently try out new ideas	0.730
	Flexibility in the work creates new idea	0.761
	Believes much in proactive workers	0.790
	Believes much in integrative behavior for the new product	0.795
	New product launch has increased over the last 3 years	0.711
	Our company is Creative in its new method of operation	0.753
Financial performance	(Cronbach's alpha = 0.851, CR = 0.894, AVE = 0.629)	
	Our competitors earn less earnings before interest and taxes than our company	0.797
	Our company earns return on assets much higher than competitors in average	0.821
	Our company earns sales growth much higher than competitor in average	0.828
	Our company uses less debt than our competitors in average	0.807
	Our company pays higher salary along with bonus to us than competitor in average	0.706

Note: Std loadings represent standardized loadings. CR = Composite reliability, AVE = Average variance extracted

estimate, assess, and present the model in an intuitive path diagram to reveal the relationship among variables (Hurre et al., 2005). The final usable sample was 216 respondents. The respondents in this survey had 63.9% male and 36.1% female, 42% respondents were in the age bracket of 31–40 years. Furthermore, 42% of the respondents had minimum bachelor level of education in management and in other disciplines. Finally, 44% of the respondents were from managerial level and 47% of the respondents had 6–10 years work experience in their respective organization.

3.1. Measures

The measurement model defines the association between the variables and the indicators that build up each latent variable. Reflective indicators are used in this model. Table 3 presents the constructs including their underlying items and the reliability and validity statistics.

In order to determine whether the indicators reflect the underlying construct, we use convergent and discriminant validity. Convergent validity displays factor loadings, composite reliability and average variance extracted as presented in Table 3. We measured financial performance with six items on a five-point Likert scale ranging from 1 = “Strongly Agree” to 5 = “Strongly Disagree”. The scale captures the model to the extent that cultural factors seem to be reliable in predicting financial performance. Table 3 specifies that all the constructs in the measure are greater than 0.7 which fulfill the criteria for composite reliability as referred by Hair et al. (2010) and ranged from 0.711 to 0.971. In addition, it is measured convergent validity of the measuring constructs. Here, individual items should load on their constructs with standardized loadings in the range of greater than 0.5 and 0.7 scale. Composite reliability should be greater than 0.7 and average variance extracted should be greater than 0.50 (Hair et al., 2010). Table 3 indicates that all six measuring instruments have high convergent validity i.e. greater than 0.70 and AVE is greater than 0.574. Thus, it is concluded that items of scale explicate greater variance than the error terms and suggest that the measurement instruments are unidimensional. Table 4 presents results of the correlation matrix and discriminant validity tests. The results in Table 4 show that the square root of AVEs in Table 4 are larger than the inter construct correlations, therefore, providing further evidence for discriminant validity (Fornell & Larcker, 1981).

Furthermore, the RMSEA (Root Mean Square Error of Approximation) value is 0.073 (0.05–0.08 = fair fit), which indicate a close fit of the model in relation to the degree of freedom (Hurre et al., 2005). The value of RMSEA would indicate a reasonable error of estimate and would not employ a model that the value greater than 0.1 (Marsh et al., 2005). The value of SRMR (0.061) is also within the range of goodness of fit.

4. Data analysis and presentation

Table 4 also shows the descriptive statistics and correlation coefficients for the measure variables. It indicates that the mean of power score is 3.31 with standard deviation of 0.89. This shows that

Table 4. Descriptive Statistics, Correlations and Discriminant Validity								
Items	Mean	Std Dev	1	2	3	4	5	6
1. Performance	1.98	0.52	0.793					
2. Clan	1.83	0.59	0.617**	0.780				
3. Market	1.87	0.68	0.504**	0.683**	0.873			
4. Power	3.31	0.89	0.032	0.089	0.105	0.881		
5. Uncertainty	1.79	0.64	0.504**	0.568**	0.692**	0.053	0.893	
6. Innovation	1.99	0.65	0.603**	0.447**	0.726**	0.150*	0.462**	0.850

Note: Std Dev = Standard deviation. * Correlation is significant at the 0.05 level (2-tailed), **Correlation is significant at the 0.01 level (2-tailed)

Table 5. Results of the structural model

Direct effect	Standardized β	t-value	p-value	Decision
Clan Culture → Financial Performance	0.23	1.925	0.055	Rejected
Innovation → Financial Performance	0.23	2.812	0.005	Accepted
Market Culture → Financial Performance	0.15	0.891	0.373	Rejected
Market Culture → Innovation	0.83	27.290	0.000	Accepted
Power distance → Financial Performance	0.05	1.121	0.263	Rejected
Uncertainty avoidance → Financial performance	0.40	2.454	0.014	Accepted
MC → Innovation → Financial performance	0.26	3.698	0.000	Accepted

respondents prefer less power imposing from their seniors with regard to hierarchy questions with deviation. Similarly, the mean of financial performance is 1.98 and standard deviation is 0.52. It indicates that respondents are highly satisfied with regards to performance scale with low deviation. It is revealed that market culture was found to be positively correlated with clan culture ($r = 0.683$, $p < 0.01$). Similarly, correlations of firm innovation with financial performance ($r = 0.603$, $p < 0.01$) was also significantly positive. It also reveals that financial performance and uncertainty avoidance ($r = 0.504$, $p < 0.01$) was found to be significantly positive. It is further revealed that market culture was found to be positively correlated with clan culture ($r = 0.683$, $p < 0.01$). The positive correlation value shows direct relationship between exogenous variables (clan, market culture, firm innovation, uncertainty avoidance) and financial performance. The results indicate that these exogenous variables are significantly and positively associated with financial performance.

4.1. Regression analysis

The result presented in Table 5 indicates the causal associations between constructs, including the estimation of path coefficients and the t-value. There are four independent variables of organization culture and dependent variable of financial performance. In addition, it is developed a measure to identify indirect effect of market culture to financial performance through innovation.

The structural model reveals that innovation and uncertainty avoidance have significant impact on financial performance at $p < 0.05$ ($t = 2.454$), while clan culture and power distance have insignificant impact to financial performance. This finding is inconsistent with previous studies (Cameron, 2004; Cameron & Quinn, 2011). Insignificant relationship could be due to the reason that financial performance could not be produced in authoritarian work. Similarly, Table 5 suggests that market-oriented culture influences the innovation ($p < 0.01$, $t = 27.29$) of the product of the firm and innovation to financial performance ($p < 0.01$, $t = 2.812$). The result also shows that the relationship of market culture-firm innovation-financial performance may also be non-linear as market culture indirectly affects financial performance of non-financial firms ($p < 0.000$, $t = 3.689$). The result implies that firm innovation plays a crucial role to let the firm to succeed better than

their counterparts, and that in turn increase the firms' profitability. Thus, it is concluded from this result that firm innovation, and uncertainty avoidance have direct impact on financial performance of the firm and innovation has indirect significant effect on the performance of the firm.

5. Conclusions, implications, and future research

This study contributes to the literature on the antecedents of financial performance. More specifically, the study examines cultural factors as antecedents of financial performance. Based on the theoretical framework of measurement and structural models, this paper studies validity and impact vis-à-vis corporate culture and financial performance. The measurement model reveals that all the six constructs of the corporate culture and financial performance are all valid measures based on their statistical test and the latter model shows that firm innovation and uncertainty avoidance have a strong relationship with financial performance. We provide evidence that market culture has a positive and significant impact on firm innovation and innovation that leads to the financial performance, which is consistent with ((Golafzani & Chirani, 2016; Hall et al., 2005); Mone et al. (1998)), indicating that fairly dealing (instructed) and proactive staffs enhance financial performance of the firm. We also show that uncertainty avoidance is positively associated to firm financial performance, which is in line with (Mahfouz & Muhumed, 2020; Sackmann, 2011; Sale, 2004), indicating that high uncertainty avoidance leads to better performance due to more assertive, risk-resolving, and cooperative conduct. The findings of this study backed with prior research, implying that cultural factors should be viewed as important predictors of corporate financial performance.

Since these dimensions have a substantial positive effect on financial results, the findings of this study suggest that managers should insist on uncertainty avoidance and firm innovation within their organizations. A strong link between these characteristics and financial performance indicates that, to improve organizational performance, a firm must foster a market culture within the company that promotes corporate innovation. The study contributes to the understanding of how company creativity aids in improving firm efficiency. It means that firms should increase their innovation ability so that they can turn all resources in their markets more efficiently, resulting in improved financial performance.

5.1. Theoretical contribution

This study contributes to the literature on organizational culture and financial performance in the context of a developing country. This study extends existing literature (e.g., Adhikari, 2010; Gyanwali & Walsh, 2020) that highlight the importance of organizational culture and financial performance in the Nepalese context. Yet, this study addresses a gap in the existing literature, where there have been limited studies explaining how clan culture, power, uncertainty avoidance, market culture and innovation may affect firm performance in Nepalese organizations. Moreover, this study also shows the novel linkages between market culture and firm performance through firm innovation. Broadly, we contribute to the organizational culture literature highlighting how different types of culture may be associated with firm's financial performance.

5.2. Policy implications

This research makes several policy implications. One of the aspects that affects a firm's financial success is its culture (J. B. Barney, 1986; Cameron, 2004; Yun et al., 2020). The firm's financial performance may be enhanced because of these distinct differences. It is difficult to define what it is about some companies that allows them to outperform others. Obviously, defining an organization's culture is difficult because managers' common sense is assumed, and even if the culture can be described, it is difficult to modify; nonetheless, a firm's culture may offer promise for sustained financial performance for organizations. As a result of the conclusions of this study, managers are urged to implement different cultural aspects that will aid in improving the firm's financial success.

From a policy viewpoint, organizations are advised to enhance training programs that promote tolerance of ambiguity. This is also fundamental in developing dynamic capabilities, whereby

organizations can introduce policies that tailor themselves to meet requirements in changing conditions. Moreover, we also encourage organizations to be receptive to changes in the marketplace, as our results show that market culture achieves competitive performance directly and through innovation. We suggest Nepalese organizations and organizations in other developing contexts to focus on market culture, be more tolerant of uncertainties and engage in innovation.

5.3. Limitations

Although there are some limitations to this study. Because this study is based on the employees of Nepalese small and medium businesses, result may not be generalized. Future research should include managers from Nepalese enterprises as well as managers from other countries with various cultures to generalize the findings. A longitudinal survey, which would provide more insight into organizational culture and firm performance, may be included in a future study. Furthermore, relying on survey responses may cause cognitive dissonance. In the future, researchers may conduct similar type of analysis with secondary data to better understand the firm's financial performance. Several other cultural factors such as adhocracy, individualism, masculinity, and so on may have an impact on the company's financial performance. As a result, future researchers could utilize these variables to assess the firms' strength and credibility.

Acknowledgements

The author would like to thank the editor and anonymous reviewers for their support and guidance in developing this manuscript.

Funding

The author received no direct funding for this work.

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Disclosure statement

No conflict of interest was reported by the author.

Citation information

Cite this article as: Corporate cultures and financial performance: The mediating role of firm innovation, Prem Prasad Silwal, *Cogent Business & Management* (2022), 9: 2010480.

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