

## Effects of Organizational Culture on Innovation in Services Industry: A Case Study of Postal Corporation of Kenya

Bichanga Walter Okibo  
Jomo Kenyatta University of Agriculture and Technology  
P.O. Box 52255 – 00100, Nairobi, Kenya,  
Tel: +254-725-595-993, +254-735-595-993, E-mail: [walter.okibo@yahoo.com](mailto:walter.okibo@yahoo.com)

Evans Wanga Shikanda  
Africa Nazarene University  
P.O. Box 10411-00100 GPO Nairobi  
Tel: +254-722-844-368, E-mail: [shikandaevans@yahoo.com](mailto:shikandaevans@yahoo.com)

### Abstract

Effects of organizational culture on innovations in services industry form a key part of the infrastructure on communications. The Postal Corporation of Kenya like any other public entity has a culture that may be preventing status quo from changing yet precisely change of routine is required if organizations are to innovate and adapt to a dynamic environment. The aim of this study was to investigate the effects of organizational culture on innovation in services industry. The hypothesis was that innovation in service industry is, affected by factors as culture, leadership, skills, rewards and recognition. The sample site of the research study was Postal Corporation of Kenya Headquarters. The respondents were senior managers, middle level managers and operational staff who are employees of Postal Corporation of Kenya.

Descriptive research design was used and a case study approach adopted. The target population of the study was a total population of 1000 comprising 40 senior managers, 60 middle level managers and 900 operations staff. Stratified random sampling technique was used to pick a sample size of 91 respondents to carry out the study, using questionnaire and interview as tools to collect primary data while analysis was done using both quantitative and qualitative approaches. Among the key findings of this study was that organizational culture, leadership, skills, rewards and recognition affect innovation. The study recommends that an organization must first grow to be conversant with its strategies on innovation and build up the required integration. Service sector industries need to increase sharing of skills and awareness that creates the benefits of increased organizational awareness.

**Key Words:** *organizational culture, innovations, leadership, reward and recognition, skills, organizational performance.*

### 1. Introduction and Background of the Study

Most organizations operate within a precise culture, and it is widely identified with contemporary discussions of organizational performance that managers and other organizational practitioners are forced to understand their cultural settings if their organizations are to perform effectively. Many management problems have their roots in the culture of a society and those that impede progress toward achieving high performance bedevil organizational practitioners. Largely, innovation has become the gateway to growth, economic transformation and decrease in poverty. A country's capacity to influence the creativity of its population and promote new commercially relevant ideas and products has become critical to upgrade institutions and economic activities that are essential for making use of new tools.

A study by Felisberto (2008), shows that competition influences innovation management as managers look out for superior options to their current procedures. The growth outlines of competition in general have led to a dynamic, chaotic world of global competition, where organizations are, forced to innovate in order to remain relevant (Drechsler 2011). Chesbrough (2003) further observes that the initiation to open up the innovation process is mainly, caused by a doubtful cultural environment. Industry leaders in adopting radical innovation tend to control global markets and promote the international competitiveness of their domestic economies for survival and prosperity in the enormous pressure of globalization (Khandwalla et al. 2004).

Majority of the businesses in both the public and private sectors depend on postal and courier services for core business processes such as direct mail advertising, relations management, distribution and delivery as revealed by the Postal Technological International, 2009. Modern trends are not supportive of developing countries' post offices, since competition from email and the Internet has adversely affected the traditional mail volumes. The desire to ensure widespread access to the post office network, combined with very low demand for the core service provided by such networks, is a dilemma facing most of the developing world's post offices. The main options in the struggle to overcome this dilemma are; greater efficiency in network and service provision, more commercial approaches and innovative product development, over and above greater use of that network (Andrea Stucki, 2009).

Most business entities have not paid sufficient attention to the importance of innovation and entrepreneurship to generate growth. This is because developed countries, are yet to embrace the role of international cooperation in encouraging technical and non-technical innovation (Calestous Juma et al. 2001). From an organizational perspective, culture has many elements, which can serve to supplement an organization's ability towards innovation. The capability to inculcate a culture of innovation is a vital requirement that provides an organization with the necessary ingredients to innovate (Majid, 2007). The ability to build and sustain competitive advantages strategically depends mostly on how firms handle changes in their environment and demonstrate innovative behavior. In a dynamic environment, innovation is a means to adapt to change, surmount organizational weaknesses, and add value to the organization's products and services. Postal Corporation of Kenya (PCK) is therefore required to develop a positive organizational culture that supports innovative products and services, in response to changing market conditions.

### **1.1 Background of Postal Corporation of Kenya**

The Postal Corporation of Kenya (PCK) owned by the Government of Kenya controls the postal services industry, though private-owned courier firms retain a major presence. Ever since 2003, the licensed number of postal and courier operators have doubled. Akin to many postal administrations worldwide, PCK intends to expand into financial services as an opportunity for future growth. The Postal Industry is an important factor that generates revenue and employment across the nation and beyond. The service is an influential source of social integration while historically the wide postal network has been a key pillar in economic and social development. A few years ago, before the advent of e-mail and text messages, a post office box was a necessity, the same way pasting stamps to attach on a letter was a sign of literacy. Structural weaknesses in the financial industry in Kenya, however, have limited the access to money transfer services, especially in rural areas and for low-income people. PCK is a progressive and commercial government public facility operating under the Postal Corporation of Kenya Act 1998.

PCK is a self-funding public business that uses its assets and resources to generate revenue, which if redeployed in the business can be, returned as surplus to the sole shareholder thus the Government of Kenya. The products and services that comprise the business of the corporation are letter post; parcels and post cargo; (EMS) courier; philatelic materials; postal financial services; deposit and payment agency services. Under its mandate, PCK has a vast

network of about 768 post offices and partners with more than 5,000 Stamp Vendor Licensees across the country (Kenya's Corporate Strategic Plan 2009 – 2013).

The global postal and courier environment is changing dramatically in recent years, and the pace of change may not relent any time soon. The following have been major concerns that the world has been addressing in different scenarios: Universal Service and Social Responsibilities, Operating Efficiency and Service Quality, Revenue and Postal Volumes, Technological Innovation and Business Process Change, Postal Reforms and Market Liberalization, Cost Management in Logistics Frameworks at all service levels. Hybrid mail interventions that combine internal competencies and outsourcing may need to be, developed particularly in respect to certain activities or general process re-engineering. More than 80 percent of the population in Kenya live in remote places where contact and use of computers and Internet is rare, even though the government and donor projects are set to change this scenario.

### **1.2 Statement of the Problem**

The Postal Corporation of Kenya which has had little or no competition for several decades currently is facing very stiff competition. This can be seen by low customer turnout in the banking halls in all the major post offices in Kenya. There is competition everywhere and there is urgent need to adopt new ways of doing business. Although, PCK has come under pressure from both internal and external forces of competition, there has been little effort to respond to the increased volatile business environment as evidenced by the decrease of revenue collection over years despite the increase in courier transactions (Consumer Postal Council).

Like any other public entity PCK has a culture that may be preventing status quo from changing yet precisely change of routine is required if the organization is to innovate and adapt to a dynamic environment. If there is no change in adopting innovation PCK is likely to close shop as customers look elsewhere for better and improved service. This study therefore comes in to shed light on the direction that business entities require to adopt in order to survive in a volatile business environment by investigating the relationship between organizational culture and its effects on innovation in service industry.

### **1.3 Objectives of the Study**

The main objective of this study was to evaluate the effects of organizational culture on innovation in services industry. In line with the above primary objective, the secondary objectives are as follows:

- i. To ascertain if leadership actions focusing on values and beliefs affect innovation in service industry.
- ii. To determine if constant flow of new ideas and experience affect innovation in service industry.
- iii. To investigate whether a firm's established rewards and recognition scheme affect innovation in service industry.

### **1.4 Purpose of the Study**

The purpose of this study was to assess the effects of organizational culture on innovations in services industry in Kenya. Understanding their effects and dynamics could help PCK to develop an organization structure that is effective and efficient by re-examining the issues and hence increase innovations in gaining competitive advantage.

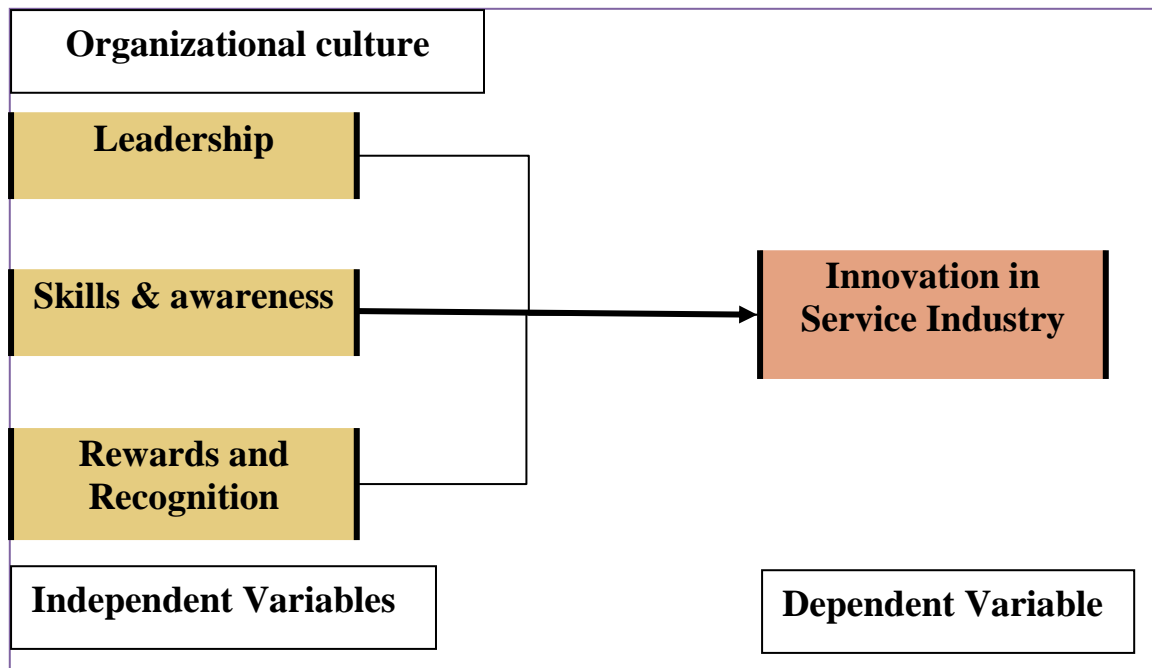
### **1.5 Scope of the Study**

The research study concentrated on collecting data from the stakeholders who are directly or indirectly involved in postal and courier services in PCK Headquarters. Data collection was targeted to top management, middle management and lower cadre staff. Most of the

respondents for this research were based at the headquarters in Nairobi where the management and courier operations are located.

### 1.6 Conceptual Framework

In the conceptual framework, organizational culture forms an essential part of the functioning dimensions of the organization. It is the moral fiber of the organization, which describes and contains the organization's basic values. This study considers the influence of leadership style on the improvement of professional skills to be vital when innovative culture is either high or low.



**Figure 1: Conceptual Frameworks**

## 2. Literature Review

Many scholarly books, journals, magazines, newspapers and website were reviewed on matter pertaining to culture; leadership, skills, rewards and recognition as some of the key factors influencing innovation in service industries. Different theories were reviewed, among which Professor Michael Porter's five forces model of organizational competitiveness, Professor Michael Porter's diamond model of nation's competitive advantage, general systems theory (GST) and the complexity theory. All the independent variables were reviewed in-depth to understand their relationship with the dependent variable.

### 2.1 Knowledge Gap

Although there are several studies on effects of culture on innovative behavior in service industries, which state that innovative culture is neglected, yet it provides explanations on how to improve the growth of business, there is no research study known by the researchers on how organizational culture affects innovation in the Kenyan services industry more specifically Posta.

## 3. Research Design and Methodology

A descriptive research design was adopted. A case study approach was chosen since it is the most suitable for "how" and "what" questions which are relevant to this study. The research

study was carried out in Nairobi the capital city of Kenya, where there are other listed compliant postal courier licensees numbering to 105 according to CCK, the regulator of courier services industry.

The study was specifically a case of Postal Corporation of Kenya (PCK) Headquarters with a population of 3500 employees. A target population comprising 1000 employees who included senior managers, middle level managers and operations staff who included clerks, customer care representatives, human resource officers, graduate clerks, computer operators, secretaries, security officers, accountants, marketers, auditors and messengers of PCK constituted the target population. This target population was accessible and representative on which the results of the study was generalized. The target population in PCK based at the head office included 40 senior managers, 80 middle managers and 880 operations staff.

**Table 1: Target Population**

Categories	Target Population
Senior Managers	40
Middle Managers	80
Operations Staff	880
<b>TOTAL</b>	<b>1000</b>

A sample was selected using a formula showing how to calculate a sample size to be used in the study based on a target population of 1000. In order to determine the minimum reasonable sample size, the following formula was applied: For most convenient business research, the population under investigation is usually a known size, N. Ninety one responses would therefore be the lowest acceptable number of responses to maintain a 95% confidence level and a 10% error level.

**Table 2: Sample Size**

Categories	Target Population	Percentage (%)	Sample size
Senior Managers	40	2	20
Middle Managers	80	3.7	37
Operations Staff	880	3.5	35
<b>Total</b>	<b>1000</b>	<b>9.2</b>	<b>92</b>

The selected sample was assigned into three sub-groups using the stratified random sampling technique which is a modification in which the population is divided into subgroups, namely senior managers, middle managers and operation staff of PCK. A sample was drawn from each of the subgroups (strata) using simple random sampling technique. This ensured that the sample selected was fairly representative.

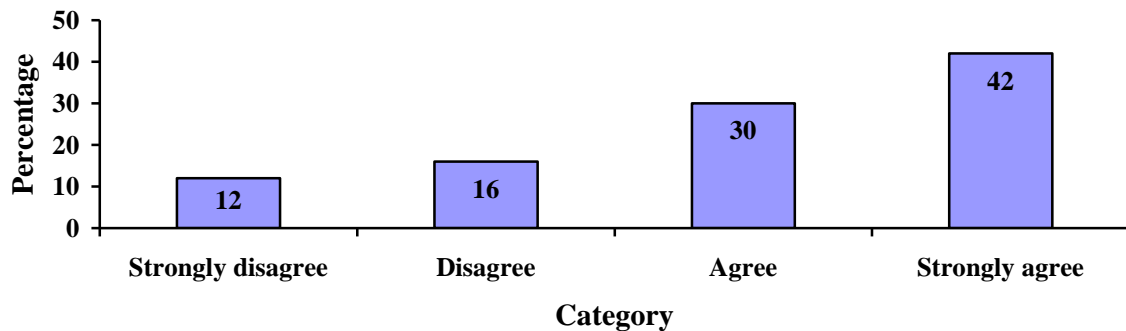
Data for this study was both quantitative and qualitative and was obtained both from primary and secondary sources. Secondary sources involved review of documented literature while primary sources were done through field research. Data collection was done using self administered questionnaires and individual interviews. A questionnaire was adopted as the principle data collection instrument because it was administered across the board. The questionnaire was tested using six subjects in PCK headquarters offices to ascertain its practicality and effectiveness in gathering the desired information. The questionnaires were self administered but interviews were taken basing on the interview schedule guide prepared in advance.

Quantitative data analysis was accomplished by the use of Microsoft office 2007 and the Statistical Packages for Social Sciences (SPSS) software. Quantitative techniques such as frequencies, percentages, bar graphs and pie charts were used to analyze and present data, while qualitative techniques such as narratives, explanations and discussions were also used.

#### 4. Data Analysis and Presentation of Findings

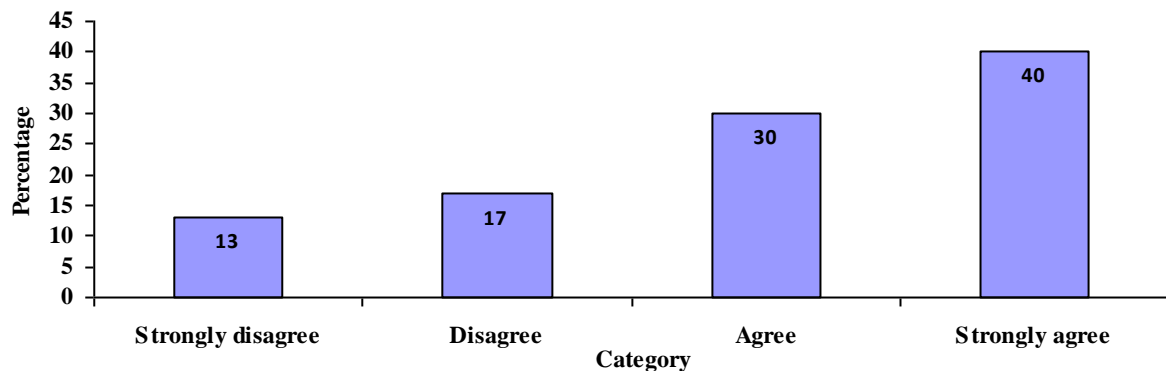
##### Quantitative Data Analysis

##### 4.1 The effect of leadership actions focusing on values and beliefs on innovation in service industry



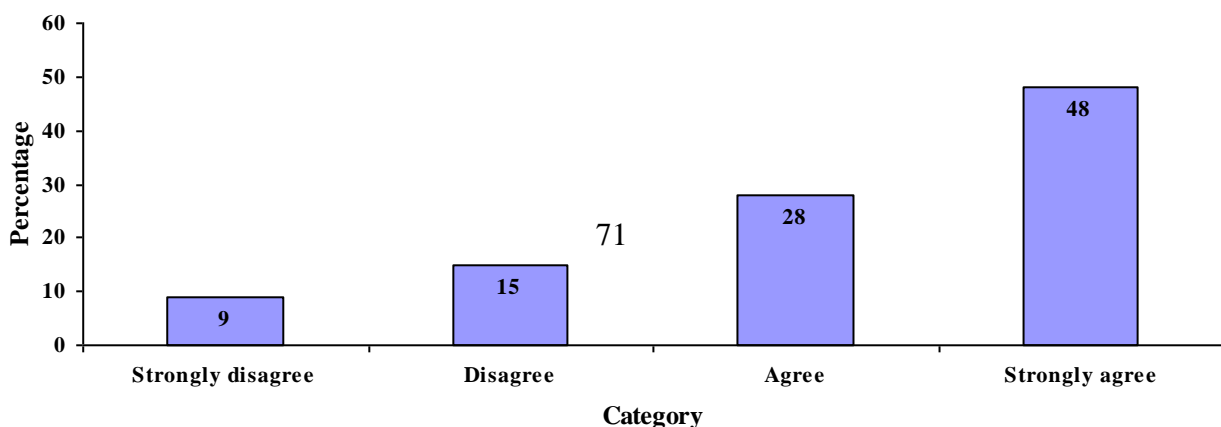
**Figure 2: Respondents Opinion on the influence of PCK officials in positions of authority**

From the respondents' views, there were extreme variations in opinions where 42% participants strongly agreed that employees in PCK are influenced by officials in higher authority while 30% agreed and 16% disagreed as 12% strongly disagreed with the statement. This shows that lower cadre employees look up to their seniors to give direction on matters regarding innovation and therefore the result is that employees are not engaged in innovative activities.



**Figure 3: Respondent's opinion on whether assignments of jobs to individuals are based on the needs and plans of the organization and the rules of the system.**

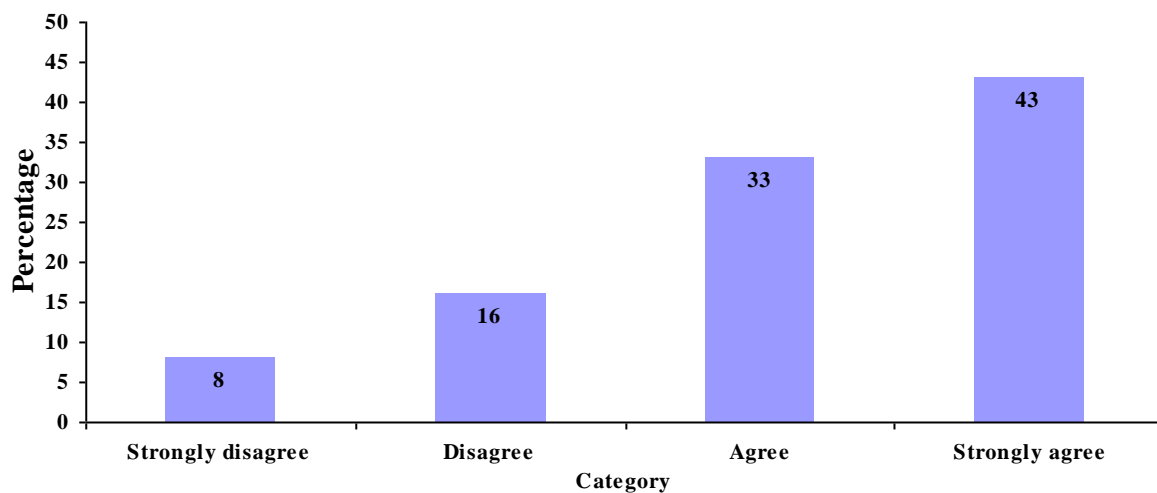
The tabulated results indicated that 40% of the respondents strongly agreed to the fact that assignments of tasks or jobs to individuals in PCK are based on the needs and plans of the



organization and the rules of the system while 30% agreed and 17% strongly disagreed while 13% strongly agreed. This response indicates that employees do not have room to come up with new ideas outside the plans and rules provided by PCK. The result is that employees cannot easily adapt to the ever changing customer needs.

**Figure 4: Respondent's opinion on whether employees of PCK are expected to give first priority in meeting the needs and demands of their seniors.**

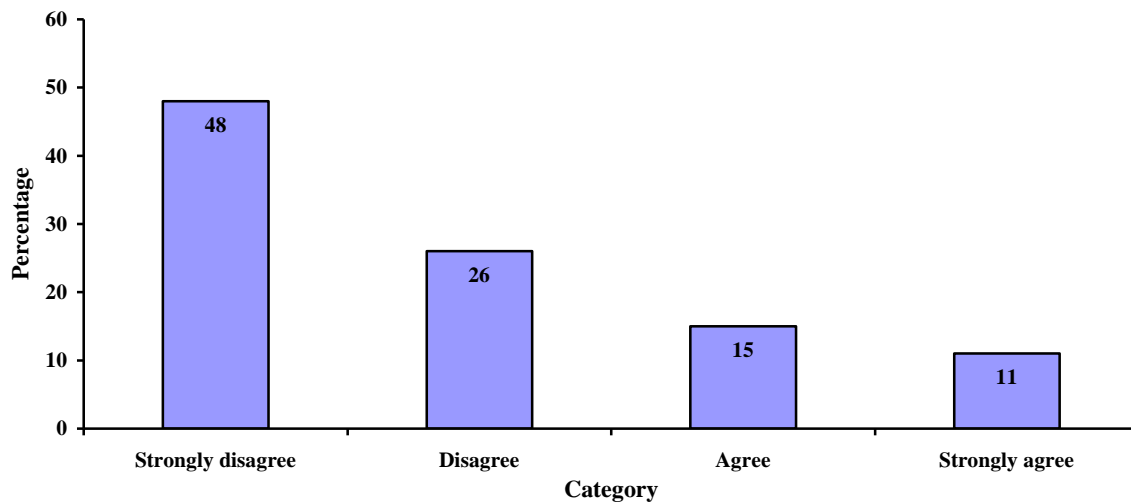
The tabulated results indicated that 48% of the respondents strongly agreed to the fact that employees of PCK are expected to give first priority to meet the needs and demands of their seniors while 28% agreed as another 15% participants disagreed and a small 9% of them strongly agreed. This shows that employees are not officially given room to explore on their own and engage in creative activities that lead to innovation in the company.



**Figure 5: Respondent's opinion on how organizational culture is the lens through which it perceives the environment in which it operates**

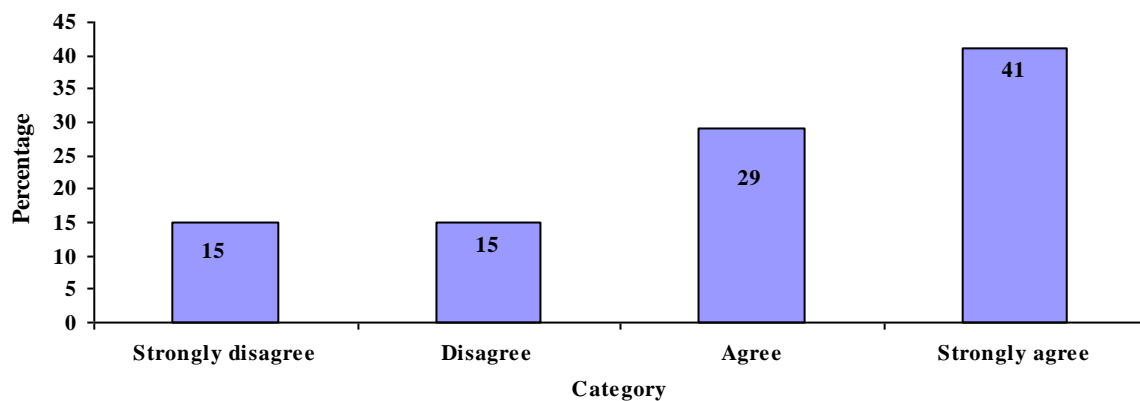
The tabulated results indicated 43% of the participants strongly agreed while 33% of them agreed to the fact that employees know that PCK's organizational culture is the lens through which it is perceived in the environment. A few of the participants, 16% disagreed while 8% of them strongly disagreed. This shows that employees in PCK appreciate and are in agreement to the fact that culture contributes to the corporate image of the company.

**4.2 The effect of nurturing a culture of employees' ideas and experience on organizational innovation**



**Figure 6: Respondent's opinion on involvement of PCK employees in creating new ideas and procedures of work**

The tabulated results indicated that, 48% respondents strongly disagreed when it came to PCK employees being involved in creating new ideas and procedures of work, 26% participants disagreed, 15% participants were in agreement while, 11% respondents strongly agreed. This shows that PCK still maintains traditional leadership style that can no longer be helpful in competing within the present business environment. The result is that this kind of leadership does not effectively respond to a competitive business environment that requires creativity.

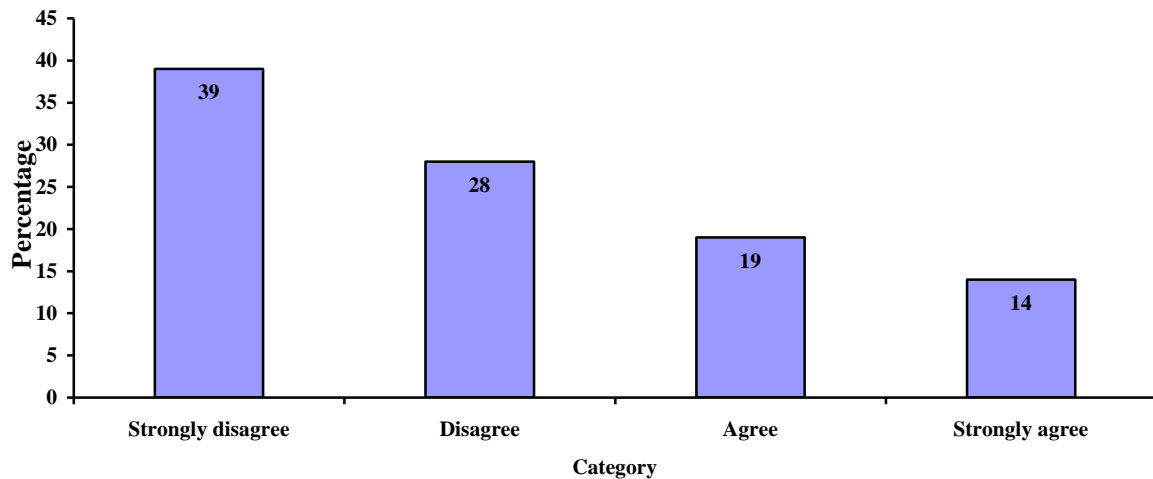


**Figure 7: Respondent's opinion on assignment of tasks and jobs to individuals in PCK based on personal judgments, values and wishes of those in position of power**

From the tabulated results, it was revealed that majority of participants strongly agreed that tasks and jobs assigned to individuals in PCK is based on the personal judgments, values and wishes of those in position of power. This was supported by 41% participants who strongly agreed, 29% agreed, while 15% respondents each disagreed and strongly agreed respectively. This shows that creation new ideas and procedures of work is the preserve of those in top management. This is not good for innovation because top management is just one important

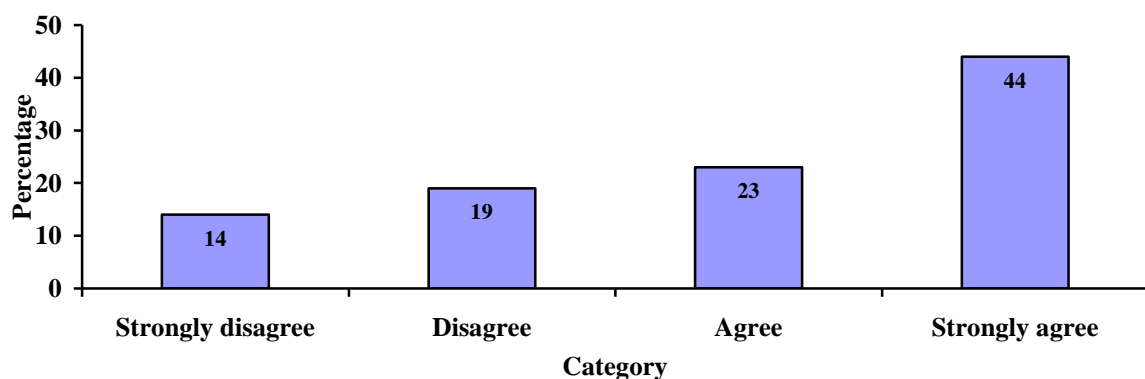


aspect of the internal capabilities within a company. The core competencies of companies that embrace innovation are in all categories of employees.



**Figure 8: Respondent's opinion on support given to employees of PCK by management in performing their duties**

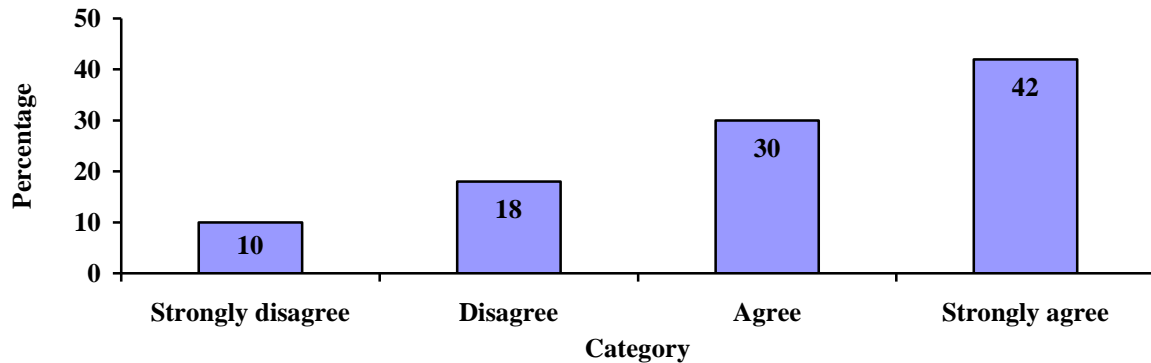
Majority of the respondents, 39% strongly disagreed that employees of PCK are given support by management in performing their duties, followed by those 28% participants who disagreed while 19% participants each who agreed and 14% strongly disagreed respectively. This response indicates that top management does not stimulate their followers, to champion innovation. The effect is that top management does not motivate staff and prepare them to perform beyond expectation that enhance their level of motivation and boost self esteem.



**Figure 9: Respondent's opinion on orientation given to new employees in PCK in learning formal rules and procedures and abide by them**

Majority of the respondents, 44% strongly agreed, 23% agreed that new employees of PCK are given orientation in learning formal rules and procedures and abide by them and stay within the boundaries of their jobs while 19% participants disagreed and only 14% of them strongly disagreed. This response indicates that employees are used to strong and open preference for order, hierarchy, and the system restricts the freedom to explore. The effect is

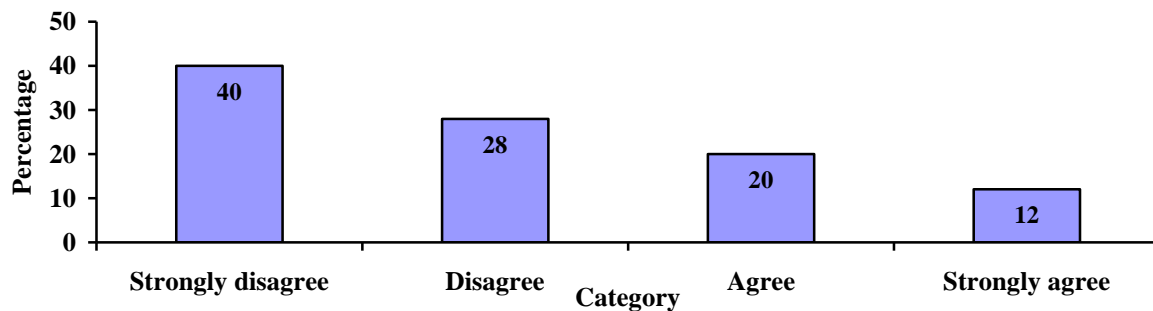
that employees are not encouraged to hold different opinions and this impact negatively on freedom to think of new ideas which can continuously improve services.



**Figure 10: Respondent's opinion on whether employees abide by rules, procedures given or go through proper channels to get permission to deviate from them or have them changed**

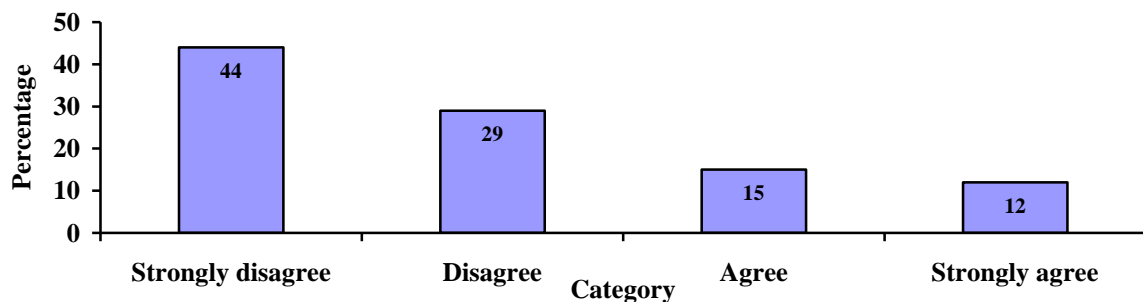
Results showed that 42% of the respondents strongly agreed to the fact that employees abide by rules, systems and procedures given or go through proper channels to get permission to deviate from them while 30% of the participants agreed, 18% disagreed while 10% strongly disagreed. This response indicates a scenario that is retrogressive since it does not recognize the individual as a source of new ideas. The effect is that employees are not motivated to think creatively and as such employees cannot give their whole to the company.

#### **4.3 To investigate the effect of a firm's established rewards and recognition scheme on innovation in service industry.**



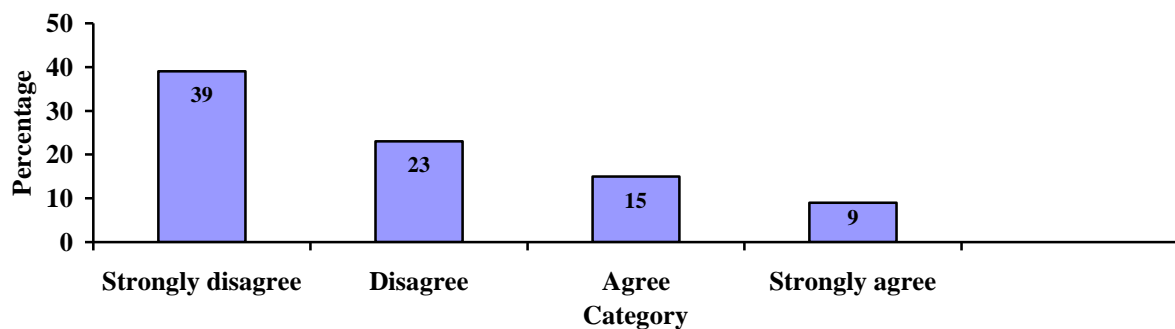
**Figure 11: Respondents opinion on whether PCK encourages employees to improve their performance and develop skills.**

Results showed that majority of the respondents 40% strongly disagreed to the fact that PCK encourages employees to improve their performance and develop skills while 28% of the participants disagreed, 20% agreed while 12% strongly disagreed. The study shows that employees are not properly coached and mentored by their seniors and the effect is that employees are not inspired and empowered which leads to reduced productivity.



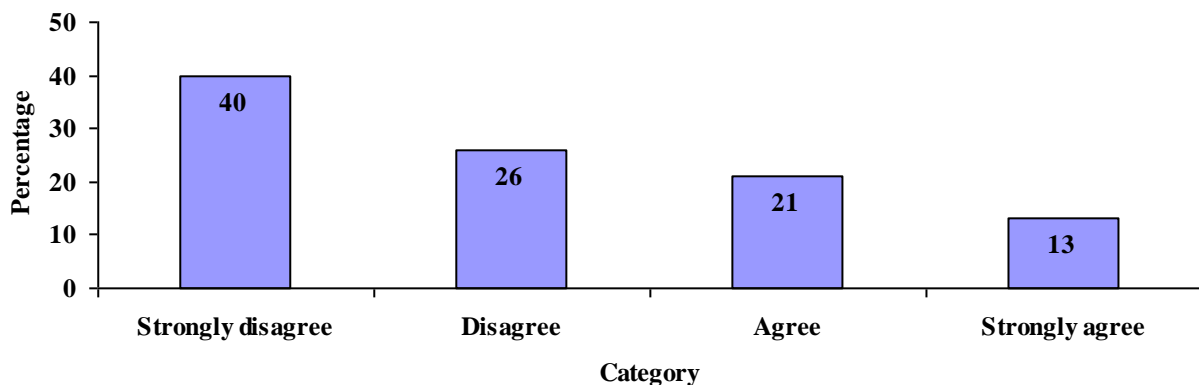
**Figure 12: Respondent's opinion on employees of PCK being given opportunities to express ideas to upper management**

Results showed that majority of the respondents 44% strongly disagreed to the fact that PCK encourages employees to improve their performance and develop skills while 29% of the participants disagreed, 15% agreed while 12% strongly agreed. This response indicates that there is no effective coaching between the subordinate staff and top management; hence the implementation of new ideas is a challenge. The effect is that employees are not able to achieve their full potential and the company will experience reduced productivity.



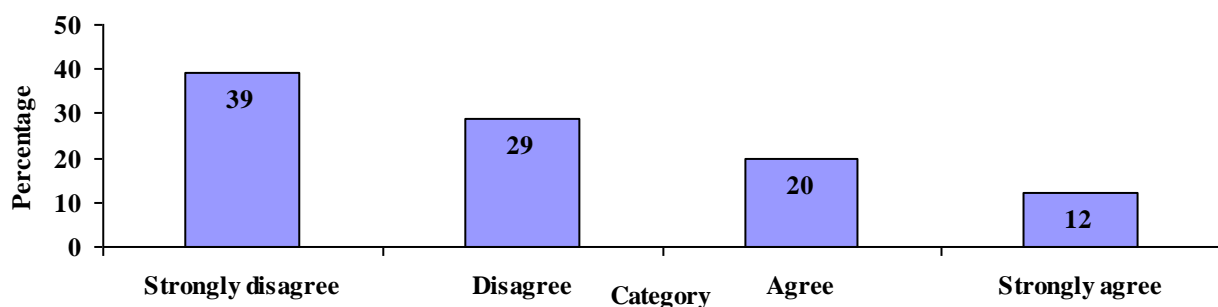
**Figure 13: Respondent's opinion on PCK management building employees' motivation by focusing on the best that can be reached**

Results showed that the majority of the respondents 39% strongly disagreed to the fact that PCK management builds employees' motivation by focusing on the best that can be reached while 23% of the participants disagreed, 15% agreed while 9% strongly agreed. This response indicates that PCK management does not build employees' motivation by focusing on the best talented employees. The effect is that in today's aggressive business environment; it will be a challenge for PCK to sustain a competitive advantage.



**Figure 14: Respondent's opinion on whether it is legitimate for PCK employees to share knowledge and expertise with one another**

Results showed that the majority of the respondents 40% strongly disagreed with the fact that it is legitimate for PCK employees to share knowledge and expertise with one another while 26% of the participants disagreed, 21% agreed while 13% strongly agreed. This response shows that PCK management does not encourage collaboration between departments for employees to exchange ideas and possibly this discourages new ideas to grow the business of PCK.



**Figure 15: Suggestions on reasons employees continue to work for PCK and remain loyal and therefore feel a sense of moral obligation to remain**

Results showed that the majority of the respondents 39 strongly agreed that one of the major reasons employees continue to work for PCK is that they believe that loyalty is important and therefore feel a sense of moral obligation to remain while 29 of the participants agreed, 20 disagreed while 12 strongly disagreed. This response shows that PCK employees feel a sense of belonging and the need to remain committed to the organization. While this is good for posterity, it discourages innovation and growth.

## 5. Summary of Findings, Conclusions and Recommendations

### 5.1 Summary of Findings

A majority of the respondents 35 of the participants strongly agreed, while 25 of them agreed that leadership, skills, rewards and recognition are some of the key factors influencing innovation in service industries. Organizational culture forms an essential part of the functions of the organization. The influence of leadership style on the improvement of professional skills is vital when innovative culture is either high or low. Innovation occurs in

organizations that provide an environment that contains both enabling and motivating conditions for innovation.

The study found out that employees in public service sector are influenced by officials in higher authority. The study established that assignments of jobs to individuals in public service sector are based on the needs and plans of the organization and the rules of the system. High innovation culture demands that employees be given operational autonomy, where the leaders of the company trigger an innovative culture. Organizations require leaders rather than administrators as the modern world has a lot of challenges facing businesses. Leadership affects creative behavior through its influence on the followers' awareness of a climate supportive of innovation. The study shows that employees in public service sector are not encouraged to think outside the norm. The modern way is to encourage employees to take initiative rather than obedience and dependence.

Within the organization, service providers need to accumulate and use their skills and knowledge efficiently and consistently in this era of knowledge-based economy. Transformational leaders should enhance innovation, if the organization needs to innovate. The study shows that there is no effective communication between the subordinate staff and top management; hence the implementation of new ideas is a challenge. This is supported by Herzberg's theory who observed that the devolution in structure and decision-making may well allow employees' participation in organizations thus willing to share their opinions.

## **5.2 Discussions**

The response indicates that employees do not have freedom to come up with new ideas outside the plans and rules provided by public service sector. A firm's ability to innovate is, enhanced by creativity as new knowledge and abilities are integrated into the organization. Thus, past research has appreciated the importance of, external courses, self-study programs, conferences and job rotations as important means of enhancing an organization's ability to innovate.

The realization of new innovation approaches leads to different internal adaption processes. The employees have to join together and apply the new principles in the innovation processes. Leadership affects creative behavior through its influence on the followers' awareness of a climate supportive of innovation. Rationally transformational leaders, stimulate their followers, as they champion innovation, and articulate a compelling vision throughout their organizations. In most cases employees may not reach high levels of professional skills when innovative cultural context does not champion it. Hypothetically, the creative performance of employees provides the raw material needed for organizational innovation. Studies have suggested that, creative employees produce novel and useful ideas about organizational products, practices, or procedures. Innovative behavior depends on senior officers of the company as employees are not motivated to try new things and equipped with the right kinds of knowledge, skills and motivation to generate and implement new ideas.

## **5.3 Conclusions**

It is important to set high and challenging expectations and goals for the whole organization. Assignments of jobs to individuals are based on the needs and plans of the organization and the rules of the system. The relevant leadership behavior is essential to improve awareness creation in organizations. The ways employees behave are mostly influenced by the way leaders provide support to organizational members and give a clear direction in terms of guidelines. Poor skills amongst managers and the workforce hinder innovation by insisting on rules, procedures that have outlived their usefulness. The leadership style is a requirement for employee innovative behavior since leaders decide whether to adapt new ways applicable to the job.

The study concluded that organizational culture in public service sector is the lens through which it perceives the environment in which it operates. Looking at the relationship between culture and behavior of employees through the lens of role perceptions in itself explains the means through which culture interprets into visible behaviors. On the issue of skills and awareness, the study concluded that employees of public service sector are not involved in creating new ideas and procedures of work for business growth. Firms with an innovative culture create an atmosphere where entrepreneurship and risk taking are encouraged and are rewarded. In most cases employees may not reach high levels of professional skills when innovative cultural context does not champion it.

The study concluded that public service sector does not encourage employees to improve their performance and develop skills. It further shows that there is no effective communication between the subordinate staff and top management; hence the implementation of new ideas is a challenge. Innovative behaviors by employees, which were previously, seen as inappropriate, disrespectful or even subversive, have been recognized by organizations endeavoring to compete in a fast moving and unpredictable, global business environment. Public service sector management does not build employees' motivation by focusing on the best talented employees. This is evident by the high staff turnover and the fact that the organization has more staff than it requires. The human resources department does not seem to have employee bonus scheme aimed at rewarding talented employees hence, those employees who feel qualified enough simply resign and look for employment elsewhere.

#### **5.4 Recommendations**

For an organization to achieve innovative competencies it must first grow to be conversant with its strategies on innovation and build up the required integration by putting in order its internal environment. Thus, the internal environment and the operational goals must be reliable in line with the innovation strategies. There is need to adjust the entire organization towards innovation and an elaborate process, that requires senior management to continuously give commitment, and special resources outside those identified in operational budgets. The strategies concerning innovation must be responsive to external environments and stakeholders.

There is need for public service sector to increase sharing of skills and awareness that creates the benefits of increased organizational awareness without having to develop the energy or cost associated with creating, capturing more knowledge. There is need for leaders to be involved in two separate responsibilities within the motivational development. Leaders should be called upon to uplift their followers to exercise more effort toward personal goals that accomplishes organizational plans. There should be a relationship between leadership and motivation through leadership approaches and the use of expectancy theory. In order to appreciate how a person or follower is motivated it is important to know the role of the leader. The transformational leader has to look out for prospective motives in admirers, and satisfies higher needs, while connecting with the full attributes of the admirers. This type of leadership style in many ways was shown by Gandhi. He shaped followers who became leaders also and creators of modern India.

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