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DRIVING OPERATIONAL EXCELLENCE: CULTIVATING ORGANIZATIONAL CULTURE IN SMES MANUFACTURING SECTORS

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Abstract: This study aims to explore the impact of organizational culture on operational excellence in the manufacturing sector of Small and Medium Enterprises (SMEs) in Malaysia. Specifically, this study investigates three dimensions of organizational culture namely empowerment, team orientation and capability development which are believed to drive positive organizational change and foster excellent performance. The study proposes a conceptual framework that integrates these dimensions of organizational culture to enhance operational excellence. Additionally, it contributes significantly to existing knowledge by deepening the conceptual understanding of operational excellence within the context of Malaysian SMEs in the manufacturing sector. The practical implementation of effective management strategies incorporating organizational culture among Malaysian SMEs has the potential to greatly improve operational excellence and overall business performance. The findings offer valuable insights for SME manufacturers in Malaysia as well as entrepreneurs and policymakers interested in enhancing the competitiveness and resilience of the manufacturing sector through the cultivation of a high-performing organizational culture.

Keywords: Organizational culture, empowerment, team orientation and capability development, operational excellence

1. Introduction

The forces of globalization, technological advancements, evolving customer needs, and shifting demographics have compelled firms to redesign themselves for excellence (Saeed et al., 2020). The constant and unpredictable environmental changes have profoundly impacted organizational operations and performance. To stay competitive, organizations must cultivate the ability to effectively respond and adapt to these uncertainties (Wahab et al., 2024). In today's business landscape, companies must

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navigate the challenge of reducing costs while maintaining production levels, enhancing quality, and improving customer satisfaction (Abdul Wahab et al., 2023).

Organizations must reinvent themselves through innovative strategies to achieve business excellence and gain a competitive edge in the market (Ahmad et al., 2018). The pursuit of excellence is crucial for navigating market challenges and aligning with organizational objectives (Jaeger, 2017). Excellence promotes continuous improvement, positioning organizations favorably within the competitive landscape (Ekmekci, 2012). To enhance competitiveness and overall performance, organizations must commit to continuous improvement and excellence (Araújo & Sampaio, 2013). One effective approach is pursuing operational excellence, a key component of business excellence, which focuses on improving essential operational performance metrics (Abdul Wahab et al., 2023; Shehadeh et al., 2016).

The investigation into operational excellence and its theoretical models has gained significant traction in the literature, drawing attention from researchers focused on both large companies and SMEs. Despite the extensive studies on operational excellence, most research has been conducted in developed countries (Chakraborty et al., 2020; Nair & Thomas, 2020; Sartal & Vázquez, 2017), with a notable gap in the context of Malaysian SME manufacturing industries (Abdul Wahab et al., 2023; Ahmad et al., 2019; Alkhalidi & Abdallah, 2018). Additionally, while the impact of organizational culture on performance is well-documented, there is limited research on its relationship of organizational culture with operational excellence in Malaysia (Ahmad et al., 2018; Wahab et al., 2022).

Given the significant influence of organizational culture on operational excellence and the limited exploration of organizational culture factors in operational excellence studies within the Malaysian SME context, this research endeavours to bridge this gap. By examining the impact of organizational culture on operational excellence in the Malaysian SME sector, this study aims to contribute to a deeper understanding of this relationship. Thus, the objective of this study is as follow:

- to examine the effect of organizational culture (empowerment, team orientation and capability development) on operational excellence.

2. Literature Review

2.1 Operational Excellence

Excellence is defined as an advanced approach to managing an organization and achieving superior outcomes (EFQM, 1999). It involves significant performance improvements across various dimensions, including operations, and aligns with modern sustainability initiatives (Edgeman & Eskildsen, 2014). According to Van Assen (2011), excellence encompasses strategic methodologies for managing both the technical and social aspects of organizations to establish superior production and delivery systems.

Operational excellence is extensively discussed in the literature, with various definitions emphasizing different aspects. At its core, "operational" relates to the execution of processes for producing and delivering products, while "excellence" signifies a goal of superior performance that must be consistently achieved and maintained for sustainable success (Mitchell, 2015). The concept has garnered significant attention from global industry professionals aiming to enhance organizational efficiency, productivity, agility, and quality (Elouarat et al., 2011). Moreover, operational excellence focuses on both short-term operational performance and long-term sustainability. It involves continuous improvement in key areas such as quality, flexibility, delivery, productivity, and cost-efficiency of internal operations (Susanti et al., 2015). This holistic approach ensures that organizations not only meet immediate performance goals but also build resilience and adaptability to thrive in changing market conditions. By fostering a culture of continuous

improvement and adopting best practices, organizations can maintain a competitive edge and achieve sustained success.

The significance of operational excellence for organizations has been well-documented in the literature. Treacy and Wiersema (1997) described operational excellence as one of the key disciplines and value propositions that organizations can adopt to compete effectively in the business environment. Operational excellence involves a management and strategic approach aimed at increasing operational profits by consistently achieving high standards in production and delivery systems. This approach enables organizations to offer optimal value to their customers through their products and services. By actively pursuing operational excellence, organizations can differentiate themselves in the competitive market by combining factors such as speed, price, quality, and ease of purchase, thereby delivering superior value to their customers (Van Assen, 2011).

2.2 Organizational Culture

Organizational culture serves as the bedrock of an organization's identity, values, and behavioural patterns. Schein (2010) defined it as a collection of shared fundamental assumptions, cultivated through the group's problem-solving efforts in external adaptation and internal cohesion. These ingrained beliefs, validated over time, become the standard by which new members are taught to perceive, think, and respond emotionally to challenges. Thus, organizational culture shapes the collective mindset and actions within the organization (Shuaib & He, 2023).

There are many models that represent various dimensions of organizational culture. Denison and his colleagues (Denison et al., 2003; Denison & Mishra, 1995; Fey & Denison, 2003) have classified the organizational culture into four main functional dimensions namely mission, consistency, adaptability and involvement. According to Denison and his colleagues (Denison et al., 2003; Denison & Mishra, 1995; Fey & Denison, 2003), the overall organizational culture dimension (mission, consistency, adaptability and involvement) has positively affected organizational effectiveness. Moreover, the Denison's model of organizational culture has been validated within the business environment and was developed based on a series of studies conducted over the years across industries on various organizations and respondents (Denison & Mishra, 1995).

According to Yew and Ahmad (2014), the involvement trait is the best dimension to drive excellence within the organization. The involvement trait consists of empowerment, team orientation and capability development. Involvement is a key trait of organizational culture which centers around how much employees participate in decision-making processes. A company with high involvement is one where everyone, regardless of their position, feels deeply invested in the company's success. They understand how their work contributes to the bigger picture and feel empowered to voice their opinions. This sense of ownership, coupled with flexibility, openness, and responsiveness within the organization, can be a strong predictor of growth (Amorin, 2021). This trait will build up the employees' capability, ownership and responsibility among employees towards their organizations (Zakari et al., 2013). The relationship between employee participation and empowerment will positively influence the organization to achieve superior organizational performance (Denison & Mishra, 1995; Shehadeh et al., 2016; Sofijanovna & Zabijakin-Chatleska, 2013; Zakari et al., 2013).

Denison and his colleagues (Denison et al., 2003; Denison & Mishra, 1995; Fey & Denison, 2003) refer to involvement as the level of participation by an organization's members in decision making. Involvement describes a firm in which all employees, across managerial levels, have a strong commitment and sense of ownership, and see the connection to the goals of the organization (Chang & Lin, 2007; Denison & Mishra, 1995). The traits of involvement deal with internal dynamics of the organization such as flexibility, openness and responsiveness and are strong predictors of growth (Denison & Mishra, 1995; Yew & Ahmad, 2014; Zakari et al., 2013).

2.2.1. Empowerment

Empowerment traits in organizational culture foster employee ownership, motivation, and resilience. Empowerment can foster a heightened sense of ownership, motivation, and resilience among employees. When employees feel empowered, they are more likely to take initiative, think creatively, and contribute to the organization's success. Empowerment encourages employees to feel a

stronger sense of personal investment in the company's goals, leading to increased engagement, productivity, and overall organizational effectiveness (Lim & Gaerlan, 2022).

Empowerment is a crucial driver of organizational growth, as it allows employees to utilize their full potential and contribute more effectively towards the organization's objectives. Companies are recognizing that high levels of supervision and direction can hinder the ability of employees to innovate and lead effectively. Empowerment has been shown to have a strong positive correlation with factors such as employee effectiveness, innovation, leadership skills, and commitment to the organization (Baird et al., 2018; Jing et al., 2022; Lee et al., 2018).

In conclusion, the empowerment traits of an organization's culture can have a profound impact on employee motivation, performance, and overall organizational effectiveness. Companies that prioritize empowerment through their policies, structures, and management practices are more likely to cultivate a thriving workforce and achieve sustained success (Ahmad, 2021).

2.2.2. Team Orientation

Team orientation is one of the critical aspects in organizational culture. Team orientation refers to the extent to which an organization fosters collaboration, communication, and collective responsibility among its members. A strong team orientation can have significant implications for an organization's performance, innovation, and ability to adapt to change (Covin et al., 2020).

The existing literature on organizational culture highlights several key traits associated with team-oriented culture. First, a team-oriented culture is characterized by a high degree of trust and mutual support among employees. This trust facilitates the open exchange of knowledge and ideas, enabling teams to work effectively towards common goals. Second, a team-oriented culture emphasizes shared decision-making, where employees are empowered to contribute their perspectives and participate in important organizational processes. By fostering a sense of ownership and accountability, this shared decision-making can enhance employee engagement and commitment to the organization. Third, a team-oriented culture often promotes adaptability and flexibility as employees are encouraged to experiment, take risks, and respond nimbly to changing market conditions or emerging challenges. This ability to adapt and innovate can be a critical competitive advantage, particularly in dynamic and turbulent environments. Finally, a team-oriented culture is typically underpinned by a strong sense of shared purpose and collective identity. When employees feel a deep connection to the organization's mission and values, they are more likely to work collaboratively and support one another in the pursuit of common goals (Amorin, 2021; Attar, 2020).

The cultivation of a team-oriented culture can bring significant benefits to organizations, but it also poses unique challenges. For example, as organizations grow and diversify, maintaining a cohesive team-oriented culture can become increasingly complex (Popa et al., 2019). Leaders must be intentional in articulating the organization's purpose and values, and implementing management systems that reinforce team-based decision making and collective responsibility (Groysberg et al., 2018). Failure to do so can lead to the emergence of silos, lack of coordination, and fragmented organizational culture. Overall, a team-oriented culture can be a powerful driver of organizational success, fostering innovation, agility, and a sense of shared purpose among employees. However, sustaining such a culture requires ongoing effort and vigilance from organizational leaders (Groysberg et al., 2018; Attar, 2020; Campbell & Sandino, 2019).

2.2.3. Capability Development

The capability development trait of organizational culture is a critical aspect of an organization's ability to adapt, innovate, and thrive in a rapidly changing business environment. Capabilities are defined as the capacity for a team of resources to perform specific tasks or activities, and they are crucial for firms to develop sustainable competitive advantages (Ma et al., 2020). Organizational capability development refers to the process of enhancing an organization's ability to effectively manage its human resources and respond to environmental challenges. This process involves aligning the organization's capabilities with its strategic goals, assessing the current competency levels of employees, and implementing targeted training and development programs (Liboni et al., 2017).

Effective capability development requires a systematic approach that encompasses the entire organization. This includes defining the necessary competencies, ensuring their alignment with business needs, and developing action plans to address any gaps. Successful implementation of this approach can help organizations meet their strategic targets and maintain a competitive edge (Al-Anezi et al., 2015). However, capability development is not solely a technical exercise. It also requires a genuine cultural change within the organization, where knowledge sharing is expected and normalized. This cultural shift must be driven from the top, with senior management demonstrating a visible commitment to the process (Alattas & Kang, 2016). When organizations are able to develop and maintain a culture that fosters capability development, they can acquire a unique source of competitive advantage that is difficult for competitors to replicate. This can be a critical factor in an organization's long-term success and survival in the face of rapidly changing market conditions (Fahlefi & Indriani, 2020).

2.3. Organizational Culture and Operational Excellence

Organizational culture encompasses the collective set of shared assumptions, values, and beliefs that are held by the various groups within an organization. Organizational culture can be viewed as the fundamental essence or driving force that cultivates a sense of energy and optimism for the organization. It enables leaders and members to comprehend and define their respective roles and responsibilities within the organizational structure (Lim & Gaerlan, 2022). Furthermore, organizational culture is a critical factor that can significantly influence the overall performance of the organization. This shared culture shapes and governs the manner in which individuals, groups, and external stakeholders interact and engage with one another within the organizational context (Fietz & Günther, 2021).

Previous studies have shown that organizational culture affects operational excellence and effectiveness (Fietz & Günther, 2021; Kassem et al., 2016; Kassem et al., 2018; Drašković et al., 2019). Furthermore, prior studies (e.g., Umrani et al., 2017; Dirisu et al., 2018) found that organizational culture has a significant positive relationship with organizational performance and innovativeness. The study by Saleh (2022) also revealed organizational culture as an important factor in supporting and contributing to operational performance. In another study conducted by Barth and Beer (2017), organizational culture has a significant relationship on organizational performance. Based on the above literature, organizational culture is expected to influence operational excellence. The framework for this study shows the relationship between the dependent variable of operational excellence and three organizational culture domains as independent variables.

3. Conclusion

In conclusion, this study makes a valuable contribution to the understanding of the critical factors that influence operational excellence. By examining the impact of the three key dimensions of organizational culture namely empowerment, team orientation and capability development on operational excellence in Malaysian SME manufacturing sectors, the study offers important insights. The findings suggest that Malaysian SMEs manufacturing sectors can enhance their operational excellence and organizational performance by prioritizing the development of organizational culture. This study is significant for both researchers and practitioners, as it identifies the pivotal factors that enable operational excellence in the SME manufacturing context. Overall, the study provides a conceptual foundation to strengthen the link between organizational culture and operational excellence, which can guide SMEs towards enhanced performance and competitiveness.

Furthermore, this paper makes a significant contribution by developing a conceptual model that elucidates the relationships between organizational culture and operational excellence within the context of Malaysian SMEs. The study augments the existing knowledge on operational excellence practices in the SME manufacturing sector. Although the literature on operational excellence is expanding, there is a dearth of discussion focused on Malaysian SMEs. Consequently, this study has enriched the understanding of the linkage between organizational culture and operational excellence. The findings of this paper will empower Malaysian SMEs in the manufacturing sector to identify and

implement operational excellence practices, thereby enhancing their overall performance and competitiveness.

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5. References

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