Organizational Culture and Its Consequences for Social Capital, Human Capital, and Innovative Behavior: Cross-Level Analysis

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ABSTRACT

This study uses cross-level analysis to investigate the influence of the organizational culture of innovative behavior, social capital, and human capital (individual level). Cross level analysis refers to the practice of making inferences from data spanning within two or more levels. This study is carried out by distributing questionnaires to small and medium enterprises (68 fashion MSMEs, consist of 399 people) in Daerah Istimewa Yogyakarta (DIY) Province, Indonesia.. This province is specifically chosen due to its large number of creative MSMEs, mainly fashion MSMEs that specially attracts both domestic and foreign tourists. The research instruments are analyzed by confirmatory factor analysis and reliability tests, with the results indicated by Cronbach's Alpha coefficient, while the hypotheses are analyzed by Hierarchical Linear Modelling (HLM). The results of hypothesis test indicate that: 1) organizational culture positively influences innovative behavior, 2) social capital mediates the influence of organizational culture on innovative behavior, and 3) human capital does not mediate the influence of organizational culture on innovative behavior. We believe that the findings of this study are important for future research and may unfold opportunities for cross-level research on different variables and settings. This study fills the gap of the literature by addressing the inconsistencies in the previous studies on the role of organizational culture. We clarify the relationship between variables and provides a solution by adding the mediating role of social capital and human capital.

Keywords: organizational culture, social capital, human capital, innovative behavior, cross-level analysis, hierarchical linear modeling.

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1. INTRODUCTION

The achievement of an organization can be predicted through the culture that exists within it (Suryanarayana, 2023; Paais & Pattituhu, 2020; Saad & Abbas, 2018). Culture is a factor that must be managed properly and directed according to company goals (Meng & Berger, 2019; Sabuhari *et al*. 2020). In this dynamic and disruptive era, organizations need aggressive and adaptive performance in order to keep their pace with technological

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developments. Therefore, the culture owned by the organization must be adapted to the current conditions, thus it can continue to develop and compete in the business environment (Lembana *et al*., 2021; Saad & Abbas, 2018; Sabuhari *et al*. 2020).

In addition, organizations are also required to have innovation capability in order to be able to seize the market (Udriya *et al*. 2019; Distanont & Khongmalai, 2020). As a response to this condition, organizations must establish a culture for increasing innovation. A number of literatures have indicated that culture can foster innovation in organizations (Suryanarayana, 2023; Wang *et al*. 2021; Ahmetoglu *et al*. 2018; Yang *et al*. 2018). This is due to the fact that the culture formed by the organization can encourage individuals to move according to the expected goals. This encouragement will become positive energy that can optimize and streamline organizational performance. Several theories also reveal that organizational culture must include aspects that can develop innovation. Camona *et al*. (2020) explained that organizational culture consists of three constructive dimensions, namely strategy, innovation stimulus, and communication. At the strategy stage, organization should form vision, mission, and goals to be achieved. At the innovation stage, organization must emphasize resource availability, manage internal and external problems, develop new ideas, and take risks. Finally, at the communication stage, organization should put emphasis on information disclosure and synergy between departments. In this matter, culture in organizations can foster management skills and capabilities, while also forming behavioral roles that encourage every individual in the organization to innovate as part of the culture itself (Naranjo-Valencia & Calderon-Hernandez, 2018; Tian *et al*. 2018).

Several previous studies also support the influence of culture in increasing organizational innovation (Yang *et al*. 2018; Wang *et al*. 2021; Ahmetoglu *et al*. 2018). Alvesson (2011) described organizational culture as community genetic code in social consciousness which causes repetition of image, emotion, attitude, and behavior of individual. Corporate culture is understood as a way of looking, thinking, feeling, and reacting that is shared by individual in organization, which are commonly disguised in the human mind and even unnoticed. It focuses on something familiar, integrated, unified, stable, and it serves to reduce uncertainty. According to Schein (2010), culture is all fundamental presumptions that are created, discovered, or evolved by a certain group while learning to solve adaptation issues to the environment and internal integration. Culture can be in the form of assumptions, norms, and values that result in actions or behaviors.

There have been several inconsistencies in the literature that discuss the role of organizational culture in driving innovation in organizations. Siengthai *et al*. (2019; Seen *et al*. 2012) mentioned that organizational culture consists of 5 dimensions including mission, involvement, consistency, adaptability, and well-being, yet the results prove that none of these dimensions has an influence on increasing innovation. Likewise, Chen *et al*. (2019) also found no influence of organizational culture on innovation performance. These inconsistencies indicate that there is a research gap in the role of organizational culture in innovation.

Diverse literature has identified the roots of innovation, in addition to its predictor and inhibitors. The precondition of innovation includes resources that directly influence innovation, such as human capital (competencies, education, qualification levels, knowledge, skills, leadership skills and management continuity that ensure the continuing nature of the innovation process), accumulated knowledge (calculated by spending on research), financial materials and resources, organizational resources (company size, closely related to motivation and innovation dynamism) (Balcerowicz, Wziątek-Kubiak,

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2009; Francik, Pocztowski, 1991). Human factors are also found to play a critical role in the innovation process. The personality, eagerness, and motives of managers, employee attitudes, as well as organizational culture is predicted to drive innovation within the organization. As stated by Maher (2014), organizational culture is a significant driver of the pace and frequency of innovation. Organizations that have the desire to be innovative ought to reorganize their culture, thus it becomes pro-innovative.

This study focuses on the importance of research on organizational culture (group level) and its implications for individual innovation (individual level) mediated by social capital and human capital (individual level). We attempt to fill the gap of previous studies, as in theory organizational culture is deemed as one of the main predictors in fostering innovation, yet inconsistencies in the literature are still found regarding this exceptional role of organizational culture. Therefore, this study is expected to clarify this relationship and provide a solution by adding the mediating role of social capital and human capital.

This study is also driven by the limited findings of cross-level research on organizational culture and individual innovation (Büschgens, Bausch., & Balkin, 2013; Sarros., Cooper., & Santora, 2008; Poškienė, 2006; Ali Taha, Sirkova, & Ferencova, 2016; Szczepańska-Woszczyna, 2014). Most studies which discuss this topic have been focused at the individual level and is carried out on large corporations or private firms (Sarros., Cooper, & Santora, 2008; Poškienė, 2006; Ali Taha, Sirkova, & Ferencova, 2016; Szczepańska-Woszczyna, 2014; Ramezan, 2016; Afshari., Nasab., & Dickson, 2020; Song-zheng., & Xiao-di, 2008; Kazemi., & Ebrahimkhani, 2016).

Therefore, we attempt to address the existing gap by assessing it using cross-level analysis. Cross level analysis refers to the practice of making inferences from data spanning two or more of these levels. In this study, cross-level analysis is used to investigate the influence of the organizational culture of innovative behavior, social capital, and human capital (individual level) on the context of micro, small, and medium enterprises in Indonesia, especially within the Province of Yogyakarta. This province is chosen due to its number of creative MSMEs in various sectors such as fashion, crafts, and culinary which continues to increase. Furthermore, this province is also known for its creative industry that also becomes a tourist attraction (Wardhana & Hariwibowo (2020).

2. LITERATURE REVIEW

2.1. Organizational Culture and Individual Innovation

One element of organizational culture is cultural innovation which consist of motivation-oriented innovation, innovative competencies, innovative behavior, and innovative climate that comes from the style and quality of the management. An innovation-oriented culture can be interpreted as the need to produce maximum innovative ideas within a given time. In establishing innovative culture, several conditions must be met, which involves these aspects: managerial capability to take risks and boost creativity, individual involvement to establish an innovation-oriented culture, responsibility for actions, as well as individual capability to form interests, use distinctive attitude, develop company mission, and have positive feeling for their worthwhile work (Lembana *et al*., 2021; Claver, 1998).

Organizational culture provides essential contribution for the organization and the regulation of member behavior. Organized culture can be understood as "idealizing shared experiences." It fulfills the functions of social stabilized factors, integration, and coordination mechanisms as it all ensure both social (internal) and material (external) balance. One of the roles of organizational culture is that it can increase the company's

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social capital (Ramezan, 2016; Zelekha & Dana, 2019). In this matter, social capital is the theory that are mainly used by economists, sociologists, and management scholars. It refers to the advantage derived by individuals from social relations (Akram *et al*., 2017; Bhatt & Altinay, 2013).

An open culture allows the involvement of all team members for creative process. An organizational culture that is based upon harsh controls is not worthwhile to the advancement of creativity and innovation. One of the purposes of organizational culture is to develop innovation and create appropriate conditions which is indicated by dynamism, flexibility, rapid adaptation to changing conditions, and non-stereotypical solutions. Regarding this, the answer to innovation growth within an organization is through providing support and encouragement for individuals to search and pursue uncommon or nonstandard manner to achieve goals (Kleinknecht *et al*., 2002). Excessive formalization and bureaucratization, in addition to extensive control structures, are not favorable to innovation. These aspects may detain the decision-making process and hinder employee creativity (Maley *et al*., 2005).

Regarding this, several scholars have discussed the critical role of organizational culture in predicting innovation (Higgins and McAllaster, 2002; Jamrog *et al*., 2006; Lau and Ngo, 2004; Martins and Terblanche, 2003; Mumford, 2000). It occurs because culture can stimulate innovative behavior among organizations and foster commitment (Hartmann, 2006). A number of other studies have also emphasized the role of culture in building work innovation (Yang *et al*. 2018; Wang *et al*. 2021; Ahmetoglu *et al*. 2018).

However, there have been some inconsistencies in existing literatures that discuss the role organizational culture in predicting innovation. Siengthai *et al*. (2019; Seen *et al*. 2012) described organizational culture with 5 dimensions: mission, involvement, consistency, adaptability, and well-being, yet none of the dimensions can increase innovation. In addition, Likewise, Chen *et al*. (2019) also found that organizational culture has no influence on innovation performance. These inconsistencies indicate that there is indeed a gap that needs to be addressed within the relationship of organizational culture and innovation.

H1: Organizational culture influences individual innovation.

2.2. The Mediating Role of Social Capital

Social capital is a set of informal values or norms that are shared among members of an organization which are based on values, beliefs, norms, and social networks (Thompson, 2018). Social capital can be gained by individuals and organizations that have extensive networks and sustainable performance (Li & Zhang, 2020; Zhang *et al*. 2022). Having social capital can lead organizations to have positive outcomes, including increased innovation, business performance, and firm success (Kim & Shin, 2018; Thompson, 2018). In this regard, social capital can be built and developed through organizational culture (Ramezan, 2016; Zelekha & Dana, 2019).

Strong social capital tends to be owned by individuals who have different social networks, connections, and interactions with other people from different backgrounds (Dekker & Uslaner, 2001). In understanding social capital, it can be categorized according to the core elements, origins, and the impact (Adler & Kwon, 2002). Accordingly, social capital is a very specific and multidimensional ideas that represents the benefits of connection and relationships (Robison *et al*., 2002). Other studies have highlighted the significant influence of organization's social capital on employees' innovative work behavior in small companies (Akram *et al*., 2017). In addition, Ramezan (2016) also found that that organizational culture significantly influences social capital.

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The value generated through networks and relationships for individuals and groups is fundamental to social capital that links various human beings (Tata & Prasad, 2015). Empirical studies have indicated that social capital influences the process of innovation in organizations (Moran, 2005; Obstfeld, 2005; Rodan & Galunic, 2004; Ahuja, 2000). In this matter, the relationship between social capital & managers' innovative behavior can be analyzed (Elsetouhi *et al*., 2015). Individual who has distinct formal or informal experiences, values, skills, and backgrounds can have more ease in exchanging information, knowledge, ways of thinking, behavior, and creating new ideas (Conway, 1995). This is because novel thoughts tend to arise within organization when different individuals play a role in networking (Bougrain & Haudeville, 2002).

In organizations, social capital is one of the main provisions in developing employees' capabilities (Li & Zhang, 2020; Zhang *et al*., 2022). Social capital directs individuals to be competent in a number of ways including communication, collaboration, learning new things, business negotiations, and other competencies related to internal and external interactions (Sabermaash *et al*., 2018; Swanson *et al*., 2020). Bonfim *et al*. (2018) explained social capital in three dimensions, namely structural capital, relational capital, and cognitive capital. These three dimensions of social capital have been proven to be able to develop employee innovation. Likewise, Kim & Shin (2018; Thompson, 2018) emphasized that social capital has an important role in creating innovation for both employees and business owners themselves. Therefore, the influence of social capital in increasing innovation must be analyzed further.

Various literatures have revealed the role of social capital in developing innovation, but there is still a dearth of research that analyzes the mediating role of social capital. The study from Civis *et al*. (2019) contributed in revealing the mediating role of social capital in developing innovation, but the finding is still limited in the education sector. Likewise, Gebremichael (2018) found the mediating role of social capital in developing MSME's innovation. Among the several literatures that discuss the mediating role of social capital, its specific relationship with organizational culture and innovation have not been addressed yet. Therefore, the analysis of the mediating role of social capital in this context must be analyzed further.

H2: Organizational culture has an indirect influence on innovation through social capital

2.3. The Mediating Role of Human Capital

Wibawa (2014) stated that organizational culture significantly influences human capital. In addition, Ghorbanhosseini (2013) stated that organizational culture, teamwork, and individual development positively and indirectly influence organizational commitment through human capital. According to Pfeifer (1995), human resources are considered very important in studying China's corporate innovation since resource-based organizations always try to optimize the use of resources and capacity of the company. Human resources is considered as one of the critical resources for organizations, as some capabilities are based on specific knowledge. Other resources may only be useful when integrated with additional individual capacities and specific resources (Nurhanifah & Setyaningrum, 2021; Hitt *et al*., 2001). Hence, given the importance of human capital, studying innovation from the perspective of human resource or individual in organization becomes crucial. When an organization's cultural values are strongly embedded in employees, it would potentially increase their potential to carry out innovation.

The human capital theory was firstly stated by Schultz (1961) as the knowledge and skills obtained by individuals through education and training. Based on the theory, a company's capabilities and productivity lies in its employees' specific skills and

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capabilities (Kwon & Rupp, 2013; Strawberries, 1990). The basic assumption is that employees as human capital, are responsible for the companies' condition due to their advancement to implement the companies' strategies and processes, and eventually determine its success rate. As a result, the company with the most reliable and developed human resources is more likely be the most successful (Crook *et al*., 2011).

Innovation is similar to culture. Most of the existing literatures indicate that innovation proxies have been applied for the measurement of invention. The factors for this innovation include novel and groundbreaking ideas (Dedahanov *et al*., 2016), research and development intensity (Allred and Swan, 2004), patents, journals and scientific articles (Euphrates, 2014), new product development (Rhyne *et al*., 2002; Zhang &Li, 2011), new technology or design (Griffith and Rubera, 2014), trademarks (Shane, 1993), and the process of introducing and implementing various ideas, products, services, plans, rules, procedures, and patents (Kaasa &Vadi, 2010). Whichever grounds of innovation proposed by scholars, there are two perspectives within this construct. First, innovation entails the creation of new ideas as a multi-stage process by which an organization converts an idea into a new product, service, or better process (Baregheh *et al*., 2009). On the other hand, innovation can also be in the form of new things, e.g., new products or services, technologies, organizational structures or administrative systems, plans, programs, improved performance and growth, sustainable practices, and organizational success (Rujirawanich *et al*., 2011).

Organizational culture is one of the determinants in achieving organizational goals. Sabuhari *et al*. (2020) emphasized that human capital development can be optimized by establishing good organizational culture. Paais & Pattituhu (2020) also added that employee performance and satisfaction is highly dependent on the culture established in the organization. Therefore, culture must be developed in accordance with company goals (Saad & Abbas, 2018), thus employees are able to work optimally to achieve goals (Meng & Berger, 2019).

H3: Organizational culture has an indirect influence on innovation through human capital

3. RESEARCH METHOD

3.1. Population

The population in this study is fashion MSMEs in the DIY Province, Indonesia. In this region, fierce competition between fashion MSMEs occurs due to the large number of MSMEs itself. This competition requires the MSMEs to have high network and social capital, in addition to high quality organizational culture and human capital. The final number of respondents are 68 MSMEs (group unit), with 399 MSMEs actors (individual unit). We use both primary and secondary data through questionnaire, interviews, and report to find out the number of populations. The data is collected using interviews and distributing questionnaire through online platforms to the respondents.

Measurement

In this study, organizational culture is measured using the instrument developed from Marsick and Watkins (2003). The human capital questionnaire is referred to Subramaniam and Youndt (2005), while individual innovation is measured using instruments developed by Zhou (2006). Social capital is measured using ten items of a social capital questionnaire (Nahapiet & Ghoshal, 1998) that assess members' perception of structural capital (4 items), cognitive (2 items), and relational (2 items) business. The

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research instruments are firstly evaluated with validity and reliability tests. The instrument is deemed to be valid and reliable if it passes certain criteria. The results of reliability test can be known by looking at the value of Cronbach's Alpha. Sekaran & Bougie (2016) suggested that the limit for the reliability test value is α 0.7; even if the α = 0.6, it is acceptable in exploratory research.

3.2. Method of hypothesis testing

The hypotheses in the present study are examined using hierarchical linear modeling (HLM) since the variables are measured in different levels of analysis, which are group and individual level (2-1-1). In more details, the variable of organizational culture is included in group level, while human capital, social capital, and innovation belongs to the individual level. The model is adapted from Raudenbush & Bryk (2002). The hierarchical linear modeling (HLM) method is considered as the best method for this model since this study uses cross-level analysis (Raudenbush & Bryk, 2002; Hofman, 1997).

4. RESULTS

4.1. Respondent's Description

From the data obtained, the findings of the demographic questionnaire indicate that most of the respondents aged 41-50 years, dominated by women (56.60%), have senior high school or vocational school as the highest education (49%), and have experience in working on MSMEs for 11-15 years.

4.2. Validity and Reliability Test Results

The findings of validity test indicate that all instruments are valid because the CFA result coefficient is worth above 0.6 (loading factor > = 0.6). Reliability test results also reveal that all instruments are reliable.

4.3. Data Processing Results

4.3.1. *Descriptive statistics*

Table 1 indicates that human capital and social capital in this study are highly perceived, while individual innovations are moderately perceived

Table 1: Descriptive Statistics and Correlations

No.	Variable	Means	Average Score Perception	Standard Deviation	HC	SC	II
Individual level variable							
1	HC	3.93	High	17.73		0.071*	
2	SC	4.25	High	0.53			0.123*
3	II	3.23	Moderate	0.74	-0.013*		

Note: HC: Human Capital; SC: Social Capital; II: Individual Innovation

Description: **p < 0.01; *p < 0.05

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4.3.2. *Unit Level Data Testing*

The cross-level analysis explains that treatment that arises in the context of justice (group level) has a different influence on individual attitudes and behaviors in the workplace when compared to individual-level perceptions of fairness. This condition reflects the influence of the individual's social background, which starts from something broad to explain the narrower characteristics of the individual. The unit-level variable in the present study is organizational culture. However, the data collected is still in the form of individual perceptions. Therefore, it takes justification of aggregation to become a unit-level variable. The steps of aggregation of individual data to become group data are explained below:

- The first step of data aggregation is the Inter-Rater Agreement (IRA), which is an index of degrees of approval in a separate unit of work. For each variable, we apply IRA calculations to each working group. In IRA testing, there is a minimum score (cut-off value) that must be fulfilled as a condition for groups/work units to be used in research. All work units must have a score of >0.70, while the one with a score of less than 0.70 must be discarded and cannot be sub stuffed in the following analysis process. A total of 68 work units have predetermined score standard (cut-off >0.70), making them eligible to be included in the analysis testing process. The highest score of IRA calculations is 1, while the lowest cut-off value is 0.70.
- The second step is the calculation of the ICC (1) or Inter-Class Correlation of organizational culture. The score that is resulted on the ICC test (1) must be equal to or greater than 0.05; that the variants between groups are larger than the variants within group. The ICC (1) test also shows a score (ICC (2) on each research variable. The score (2) must be >0.60, as the standard score of the ICC (2) (Chan *et al*., 1998). If the standard score is met, the group/work level has the average eligibility to represent the score at the group level (Chan *et al*., 1998). The estimates show the ICC score (2) fulfills the standard value of 0.60 for the organization's culture. Table 2 shows that the average RWG IRA test result of 68 working units (MSMEs) of organizational culture is 0.745.

The results of the analysis have met the provisions of James *et al*. (1993), i.e., the average IRA index has exceeded the minimum limit of 0.7. It indicates a shared perception or high consensus, using those variables for further analysis. The results of ICC test which are used to decide the level of variance within and between work units (MSMEs) show ICC (1) and ICC (2) values for organizational culture are 0.682 and 0.842, respectively. The ICC test result exceeds the ICC's minimum requirement (1) of 0.12 (James *et al*., 1982) and the ICC minimum limit (2) of 0.6 (Glick, 1985). The results of the ICC (1) and ICC (2) tests show variance within the work unit and variance between work units based on Table 2.

Table 2: Unit Level Data Test Results

No.	Variable	r_{wg} (means)	r_{wg} (median	ICC (1)	ICC (2)
1.	Organizational Culture	**0.745**	**0.725**	**0.682**	**0.842**

Note: rwg = Interrater Agreement, ICC = Intraclass Correlation Coefficient

4.3.3. *Testing Between Dependent Variable Variance*

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Hierarchical linear modeling (HLM) is one of the statistical analysis tools to test the cross-level impact of organizational culture on human capital, social capital, and innovation. The first stage in this analysis is testing the unconstrained (null) model of dependent variables. This test determines the variance of dependent variables among units (MSMEs) (between-groups variance) as a requirement that must be fulfilled before cross-level testing. Null model testing is carried out on the variables that becomes the outcomes or results of organizational culture, namely social capital, human capital, and innovation activation. The unconstrained model test is performed by inputting individual-level variables (level 1) as external variables in the absence of predictor variables, either individual-level predictors (level 1) and unit-level predictors (level 2).

The unconstrained model evaluation differs from the one-way ANOVA approach. It is utilized to understand the differences between groups. Indicators in the unconstrained model test include chi-square, as it is employed to find out the significance of the variance between each work unit and equipped with ICC.

The results of the unconstrained test of the second model of external variables are presented in Table 3. The results show significant chi-square values for social capital (chi-square =76. 6732; $p < 0.05$), and human capital (chi-square =87.5666; $p < 0.005$). These findings show differences in outcome variables between work units. Furthermore, cross-level analysis is carried out by utilizing HLM analytical tools, which is presented in Table 3.

Table 3: Summary of Unconstrained Test Results (Null Model)

Variable	Chi-Square (χ^2)	σ^2 and τ	ICC = $\tau/(\tau + \sigma^2)$	Information
Social Capital	119.56041	0.24853 and 0.03448	0.121833	The results of the unconstrained model showed significant chi-square and ICC that there are differences in variance between units/groups in each dependent variable so we can continue HLM analysis.
Human Capital	245.7868	0.19100 and 0.09229	0.325779	
Individual Innovation	104.53234	0.50165 and 0.04976	0.090241	

Hypothesis Testing

Hypothesis testing in the present study is grouped into two sections: (1) examining the cross-level influence of organizational culture on individual innovation; and 2) testing the mediating influence of social capital and human capital on the influence of organizational culture on innovative behavior. Cross-level testing is carried out using HLM analytical tools. According to Seibert *et al*. (2004), HLM is the right tool to evaluate or examine cross-level models in which there is variance at the individual level and group-level with individual level externals. The variance within and among units are still considered in the HLM method (Hoffman *et al*., 2007). The testing of direct influence of unit-level variables on individual-level variables in an HLM is known as an intercepts-as-outcomes model, which in this study is shown in Table 4.

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Table 4: Summary of Unit Level Variable Live Test Results with Individual Level External Variables

Variable	Individual Level								
	Social Capital			Human Capital			Individual Innovation		
	γ	S.E	*P*-Value	γ	S.E	*P*-Value	γ	S.E	*P*-Value
Unit Level									
OC	0.034***	0.086	0.365	0.191**	0.111	<0.001	0.038**	0.140	0.045**
Individual Level									
SC							0.048	0.082	0.045
HC							0.046	0.072	0.100

Note: OC = Organizational Culture; SC: Social Capital; HC: Human Capital

Description: ***p <.001; **p < 0.05

It can be seen from Table 5 that the results of testing the influence of cross-level organizational innovation on individual innovation are significantly positive (γ =0.038; SE = 0.140; p < 0.045). Therefore, it can be concluded that **hypothesis 1 is supported**.

The results of the H2 test indicate that social capital partially mediated the influence of organizational culture on innovation, thus **Hypothesis 2 is supported**. According to Fritz & MacKinnon (2007), partial mediation occurs when an independent variable has both direct and indirect influence to the dependent variable. The first hypothesis test has indicated that organizational culture can have direct influence on innovation. Once there is a mediation variable, there is a change in the variance value (r2). From these assumptions, it can be stated that the results of the second hypothesis test show social capital partially mediates the influence of organizational culture on individual innovation. On the other hand, the results of the H3 test indicate that human capital does not mediate the influence of organizational culture on individual innovation (p-value >0.05).

Table 5: Hypothesis Testing Steps 2 and 3

Stages	Direct Effects (γ)	Influence after mediation (γ)	Information
OC ⟹ II	0.038**		Significant (H1 is supported)
OC, SC ⟹ II		0.03696 ** (***P*-Value=0.048**)	Significant (H2 is supported)
OC, HC ⟹ II		0.03895 (***P*-Value=0.478**)	Insignificant (H3 is not supported)

Note: OC = Organizational Culture; SC: Social Capital; HC: Human Capital; II: Individual Innovation

5. DISCUSSION AND IMPLICATION

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This study reveals that organizational culture (group level) positively influences the individual innovation (individual level) in fashion MSMEs in DIY Province, Indonesia. This finding supports previous research that has been carried out (Higgins and McAllaster, 2002; Jamrog *et al*., 2006; Lau and Ngo, 2004; Martins and Terblanche, 2003; Mumford, 2000; Hartmann, 2006; Campts *et al*., 2014). Aditya & Ardana (2016; Parashakti, Rizki, & Saragih, 2016) stated that transformational leadership and organizational culture significantly influence employees' innovative behavior. As a crucial aspect in organization, organizational culture may cause a huge consequence on the formation of individuals within the organization. If the culture in the organization does not support the growth of creativity or innovation, employees' innovative behavior will be frozen and difficult to develop. On the other hand, a culture that can instill good habits in individuals in each MSME is proven to contribute in developing innovative behaviors. This innovative behavior has been seen in the form of the ability and willingness of individuals to perform activities that contain creativity, services that can provide higher value benefits, and higher satisfaction to stakeholders (Kanter, in Fonceca, 2002) and (Imai, 1986).

The result of the hypothesis 2 test in this study is also supported. It indicates that organizational culture positively influences the increase in individual social capital. Akram *et al*. (2017) and Ramezan (2016) stated that the values embedded quite strongly in all elements in the organization contribute to individual social capital formation. They increase social capital in the form of understanding, readiness, willingness to develop networks with all parties positively. Employees who have social capital have a willingness to share and appreciate others' work, develop positive thoughts of others, have empathy and communication skills that makes each other feel comfortable, and are oriented to serve and satisfy. These capabilities can lead to fostered innovative behavior of the employees itself. This finding has been reinforced by previous studies which proven that social capital contributes to shape individual innovation (Akram *et al*., 2017; Elsetouhi *et al*., 2015; Forsman, 2011; Pérez-Luño *et al*., 2011). It also supports previous studies which investigate the impact of organizational culture on the innovation behavior of top managers in Iran (Maroofi, 2016).

Furthermore, the findings indicate that hypothesis 3 in this study is not supported. In other words, organizational culture does not have positive influence on human capital. The results of the present study contradict with Ma *et al*. (2019). It turns out that large amounts of human capital do not always influence employees' innovative behavior. Although the human capital owned is quite large, but not all MSMEs in DIY Province provide sufficient training and education opportunities to members. They tend to carry out monotony work and get used to it, thus there is only a small effort to innovate their products, processes, or procedures. In addition, the worsen financial condition of most MSMEs due to the pandemic also cause individuals to have no opportunity to participate in training and increase knowledge for their capacity.

The results of this study indicate that organizational culture (group level) positively influences the level of individual innovation in fashion MSMEs in DIY. Using cross-level analysis, this study found that organizational culture has an influence on social capital, human capital, and innovative behavior. Future research can study fashion MSMEs in other parts of Indonesia, in private companies, or in public sectors. In addition, the findings of this study also suggested that human capital does not influence an individual's innovative behavior. Therefore, fashion MSMEs need to increase human capital (intellectual intelligence, knowledge, skills) by providing more opportunities for

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continuing education to a higher level and special training based on technology, thus increasing the ability to innovate.

Collectivism among people in Asian countries is quite high. People in Asia value collectivism over individualism, and they tend to collaborate in making decisions for business. This collectivity may lead to high organizational productivity (Hofstede, 1980). For Asians, a sign of a good culture is that members of the society accept the collective culture, thus collectivism can bring positive outcomes to the organization. Comparatively, people's competitiveness, success, and achievements are lacking in Asian countries than in Europe or America. People in Asia value tradition and spirituality. A very strong tradition is internalized into the organization, thus forming high social bonds among members of the organization. High social bonds can create high social capital. Connecting people in Asian countries is very important at work. People in Asia tend to prefer to build strong bonds with known people, even some feel very confident if they have official acquaintances. Nonetheless, having a wider professional connection and not just with certain people will be more helpful at work.

Workers in Asian countries usually show unswerving loyalty to the business unit where they work. Among these workers, those who have worked more than ten years in a business unit never move to another unit. Although there is a transfer from one business unit to another, it is rarely due to disputes between employers and workers. There is a moral obligation among workers and employers to help each other. Despite a decrease in demand and falling incomes, fashion MSMEs continue production activities. Workers in Asia also know that employers who do not treat workers well will find it difficult to find workers. The close relationship between workers and employers can give a mixed feeling of moral obligation and guilt about not fulfilling it. This is evident in employers who give subcontract work. Since the difficulty of fulfilling moral responsibilities in times of need if they work on workers at home.

Strong personal relationships between workers and employers and social network density can establish social control for workers and employers to fulfill their obligations properly. These may form an increasingly strong social capital in workers in Asia. For most Asians, having connections and building good relationships take precedence. When starting a business cooperation, Asian people would take the time first to understand manners and build relationships, after which only talk business affairs. A culture like this can positively influence the preparation of social capital for business people. Social capital is a relationship created from social norms that become social glue, creating unity among members. Social capital arises from the interactions between people in a community. When social capital is increasing in quality, it would impact the power of innovation in business. This is relevant to the results of the current research, which found that social capital mediates the influence of organizational culture (collectively) on the improvement of individual innovation.

The practical implication of this research is that human resource department in organization, especially MSMEs, must take into account issues related to the creation, dissemination, communication, and implementation of organizational culture as an important factor in the creation of social capital and human capital in organizations. When leaders fully support social capital and human capital, they would be able to increase the innovative power of individuals in the face of faster environmental changes. In this case, management should pay more attention to improving team orientation values to strengthen social capital and human capital to encourage employees to have high innovative power and contribute to the organization. Organizations can reach social

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capital and human capital through education and training opportunities (Nurhanifah & Setyaningrum, 2021).

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