

Impact of Islamic Cultural Principles on Firm Performance: The Mediating Role of Product Innovation

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Abstract

The purpose of this study is to investigate the mediating role of product innovation in the relationship between Islamic cultural principles and firm performance. Furthermore, in this study, the researchers have assumed that Hofstede's cultural dimensions, such as power distance, individualism, masculinity, and uncertainty avoidance, are inherent to Islamic culture. A survey was conducted among the managers of 280 small and medium-sized enterprises (SMEs) adopting Islamic culture in Lahore, Pakistan. The proposed hypotheses were tested using structural equation modeling (SEM) via SmartPLS. Moreover, the results indicate that Islamic culture is positively and statistically significantly associated with product innovation and firm performance. However, the cultural aspects of masculinity do not show any significant relationship with innovation outcomes, reflecting the balanced and ethical orientation emphasized in Islamic teachings. Furthermore, product innovation in Pakistan's

SME's sector plays a significant mediating role in the relationship between Islamic cultural principles and firm performance. The results indicate that organizations operating in the light of Islamic ethical values can improve performance by promoting innovation in accordance with Islamic principles. Although previous literature has recognized national culture as a determinant of organizational performance, empirical evidence linking Islamic cultural principles with innovation and performance is particularly limited in the Pakistani context. This study provides empirical insights into Islamic management and business research into how innovation mechanisms transform Islamic cultural values into enhanced organizational performance.

Keywords: Power Distance, Masculinity, Individualism, Uncertainty Avoidance, product innovation, firm performance

I. Introduction

National culture plays a significant role in individuals' behavior and provides a useful framework for research (Ng et al., 2007). Rogoff et al. (2003) suggest that the impact of ignoring cultural identities, including family structure, community, and cultural orientation, on SMEs' development and functioning is limited. Past research has identified the importance of national culture in organizational effectiveness. These include a well-balanced national culture (Nazarian et al., 2017), environmental management practices (EMP) (Song et al., 2018), financial technologies (Fintech) (Abbasi et al., 2021). Product innovation has been linked to firm performance (Saunila, 2020; Rehman et al., 2019). Product innovation is often seen as a means to gain a competitive edge and to adapt to changing firm performance (Kostis et al., 2018). This investigation shows that most companies support and enrich the

national culture, few studies have examined how product innovations affect the relationship between national culture and firm performance (Gasparin et al., 2021). However, according to Hoang et al. (2022), national culture needs more study.

In addition, prior studies posit that national culture has significant effects on product innovation and firm performance (Chen et al., 2021). Organizational performance and sustainability are threatened by technological advances (Ciampi et al., 2022). External challenges force firms to innovate by re-evaluating their operations. Tidd et al. (2020) stated that product innovation is now crucial for a company's long-term success. In the current context, SMEs must demonstrate greater technical innovation, creativity, and competitiveness, according to Heenkenda et al. (2022). This study examines how national culture and product innovation affect the performance efficiency of Pakistan SMEs.

The literature shows how national culture affects firm performance (Nazarian et al., 2017). Conversely, product innovation is widely recognized as a key factor in reorganizing firms for better performance. Several studies suggest that product innovation boosts firm performance (Saunila, 2020; Rehman et al., 2019). Product innovation has also been used to demonstrate how management, firm performance, social responsibility, and leadership affect a company's success. Falahat et al. (2020) and Le and Ikram (2022) also found that product innovation improves firm performance. Past empirical research suggests that national culture has a significant impact on product innovation (Christa et al., 2021). Limited studies have examined the links between national culture, product innovation, and firm performance in Lahore, Pakistan. Past research stated that cultural values may affect firm performance. There is a gap in this transition process where product innovation could foster cultural effects on firm performance. National culture

affects many organizational outcomes, including performance (Yang & Wang, 2022).

This study examines how national culture, product innovation, and firm performance affect an organization, analyses literature and provides a full discussion to provide managerial insights on manufacturing SMEs of Punjab, Pakistan. This research focuses on the gap in the literature regarding the mediating role of product innovation in the relationship between national culture and firm performance. Moreover, this research investigates the association for a justifiable reason, especially in a developing nation like Pakistan, where relevant research is scarce. Ramadani et al. (2019) investigated that product innovation and firm performance can boost an economy. Product innovation as a mediator between national culture and firm success improved this research's analysis. This research has two parts: literature review and hypothesis formulation. The third section describes a specific methodology or procedure, and the fourth section discusses the results. The article's conclusion includes comparisons with previous research, suggestions for managerial decision-making, and recommendations for additional research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Firm Performance

The literature on organizations extensively investigates firm performance, with Carton (2004) establishing a connection between organizational performance and long-term viability. Numerous studies have examined the relationship between national culture and firm performance, revealing a positive association (Hoang et al., 2022; Khan et al., 2022). Various factors

influencing organizational performance have been identified in past research, such as employee commitment (Franco et al., 2017), organizational commitment (Macedo et al., 2016), job satisfaction (Laili et al., 2019), innovation (Kiss et al., 2022), organizational learning (Tambosi et al., 2020), and organizational culture (Martínez-Caro et al., 2020). Prior studies have highlighted a significant link between national culture and firm performance. The current research specifically investigates how product innovation serves as a mediating factor in the relationship between national culture and manufacturing SMEs in Pakistan.

Power distance culture refers to how much people recognize and expect power inequality (Hofstede, 2001). Wang et al. (2019) indicate that increasing human capital, staff quality and culture, particularly power distance, can improve social decision-making. These issues may hinder individual and organizational decision-making. Naidu and Chand (2017) examined gender inequality and SME performance, with culture as a moderating variable. Their findings show that culture moderates this context. A culture with high power distance encourages active engagement and better problem-solving. Following the foregoing discussion, the following hypothesis was proposed.

H1: There is a significant positive relationship between power distance culture and firm performance

A masculine culture encourages aggressiveness, material goods, and social prestige, emphasizing concrete success (Hofstede, 1980) and finding that masculine people are assertive, developing new ideas and using new methods to pursue them, even in uncertain and risky situations. Farooq et al. (2020) link the masculinity culture in national culture and firm performance. This study confirms Frijns et al. (2016) and Lim et al. (2016) findings that

masculinity culture affects business outcomes. Dodd et al. (2022) found that masculinity culture affects firm performance. In organizational evolution, organizations need a male culture to survive or excel. The SMEs industry may benefit from masculinity culture and organizational performance. Therefore, the following hypothesis was proposed.

H2: There is a significant positive relationship between masculinity culture and firm performance.

An individualistic culture values individual accomplishment (Hofstede, 1980). Firms typically promote independence, freedom, and autonomy in societies with individualistic decision-making. This empowers subordinates to make decisions and act, motivating them to succeed (Hofstede, 1980). Despite the potential for uncertain or unfavorable outcomes, giving subordinates freedom and autonomy to make decisions and take actions has been shown to generate effective novel ideas. The organization's ability to develop, understand consumer requirements, and promote continuous learning depends on its individualistic culture (Dodd et al., 2022). Individualistic culture and organizational effectiveness are linked (McKearney et al., 2023). Ateş et al. (2021) found that individualistic culture boosts firm performance. Individualism culture states that an organization will modify its strategic substance and scope in response to changes in the external environment. The need for SMEs to adapt to changing operational methods and competitive tactics is clear. A culture of individualism is thought to boost performance. Therefore, the following hypothesis was proposed.

H3: There is a significant positive relationship between individualism culture and firm performance

The extent of resistance to uncertainty or ambiguity is called uncertainty avoidance (Hofstede, 1980). Uncertainty avoidance culture emphasizes an

organization's stability, direction, and ability to create relationships beyond its boundaries (Luria et al., 2019). According to Malik et al. (2021), strategic direction, aims and objectives, and vision define an organization's capabilities. Uncertainty avoidance culture improves organizational effectiveness (Luria et al., 2019). Kim et al. (2022) found that uncertainty avoidance culture affects organizational performance. According to Astvansh et al. (2023), individual and organizational goals aligned in the same direction promote uncertainty avoidance in firm performance. The culture of uncertainty avoidance in SMEs unites the organization around a common goal, guiding employee efforts. Performance is greatly affected by goal alignment. Based on the above discussion, the relationship was proposed:

H4: There is a significant positive relationship between uncertainty avoidance culture and firm performance

2.2 National Culture

National culture is a nation's values, beliefs, practices, and behaviors. It includes a group's identity and unique traits. Hofstede (1980) defines national culture as the shared cognitive and psychological framework that distinguishes one group from another. Muttakin et al. (2022) argue that culture shapes people's ideas and interpretations of their surroundings, which affects their business and strategic decisions. According to Frijns et al. (2022), national culture influences employees more than the organization's culture. The impact of national cultures on economic difficulties is well known. Scholars use dimensions to define national cultures for comparisons. Papula et al. (2018) state that national culture includes power distance, masculinity, individualism, and uncertainty avoidance. Hofstede (1980) also found that people develop social and business networks based on shared values, beliefs, and attitudes, which determine their behavior within these

systems. National culture is acquired by internalising individual attitudes and perspectives and building an organization's guiding principles and ideals (Khripunov, 2023). Wang and Zatzick (2019) argue that national culture influences socially and economically significant activities, such as innovation. Due to its complexity and limited definitions, national culture is challenging to articulate.

Numerous studies have explored the impact of product innovation on firm performance, with recent research underscoring its crucial role in a firm's success (Hanaysha et al., 2022). Organizations actively manage their innovation capabilities and efficacy to enhance overall performance. The relationship between national culture and firm performance has been investigated by Gip et al. (2022) and Peng and Zhang (2022), with most studies confirming that national culture significantly contributes to improved firm performance. The existing empirical literature has primarily concentrated on the direct impact of product innovation on firm performance. However, limited research has explored the mediating role of product innovation in the relationship between national culture and firm performance (Naranjo-Valencia et al., 2016). Considering this gap, the current study asserts that product innovation serves as a mediator in the relationship between national culture, specifically considering power distance, masculinity, individualism, uncertainty avoidance, and firm performance.

Power distance culture refers to the degree to which people from lower socioeconomic classes accept and expect an unequal distribution of power (Hofstede, 1983). The major question in this arena is how society addresses inequality. In societies with high power distance, individuals often adopt hierarchical structures in which positions are assigned without justification (Hofstede, 2001). Decision structures in this setting are centralized and use

explicit rules (Kaasa, 2016). However, when power distance is low, individuals actively work toward power equality and demand explanations for power disparities (Hofstede, 1983).

Hierarchical systems tend to hinder information sharing in high-power-distance contexts, according to prior studies. Thus, people are less likely to introduce new items proactively (Everdingen & Waarts, 2003). Gip et al. (2022) found that societies with lower power distance exhibit greater hierarchical trust. This trust encourages creativity and ideas, according to Venturing (1993). Based on this, decentralized nations are more likely to innovate (Zhang & Yang, 2022). Individual participation in decision-making may decrease when power gaps grow (Kaasa, 2016). Conversely, low power distance environments encourage collaboration and information sharing (Shane, 1993). However, past studies have shown that decreasing power distance increases invention rate. The present study hypothesizes that socialization activities facilitate information exchange, which increases knowledge acquisition and motivation to innovate products (Papula et al., 2018), the following hypothesis was proposed:

H5: There is a significant positive relationship between power distance and product innovation

Masculinity culture is the societal tendency to value performance, competitiveness, and the use of courage, perseverance, and monetary rewards as indicators of success (Hofstede, 1983). According to studies, masculine cultures tend to be less inventive (Kaasa, 2016; Khan & Cox, 2017; Prim et al., 2017). In feminine situations that emphasize work excellence and cooperation, errors are more tolerable (Prim et al., 2017). Thus, people in such settings are more likely to innovate. However, male-dominated organizations may encourage rivalry and monetary rewards, which may hinder

innovation (Khan & Cox, 2017). Previous research by Shane (1993) was not statistically significant. This illustrates the need for future investigations. According to Hofstede (1983), masculinity emphasizes competition while femininity emphasizes cooperation. Thus, an environment that encourages information flow may boost innovation. Chesbrough (2003) suggests collaborative venues for innovation. Product innovation allows the incorporation of ideas from other organizations or countries, overcoming cognitive limits in individual decision-making. Thus, product innovation helps collaboratively create new products and enter new markets (Chesbrough, 2003). Khan and Cox (2017) propose that female societies value connections and collaboration, which encourages creation. Thus, this study proposes the sixth hypothesis:

H6: There is a significant positive relationship between masculinity culture and product innovation

On the contrary, individualism, in contrast to collectivism, is characterized by a preference for a weak social structure where individuals prioritize their own and their families' well-being. Collectivism, on the other hand, favours a cohesive social structure where individuals anticipate support and care from family or group members in exchange for unwavering commitment (Hofstede, 1983). Active participation and social acceptability hold value in collectivist scenarios (Prim et al., 2017), often leading individuals to prioritize group interests over their own (Khan & Cox, 2017).

Van Everdingen and Waarts (2003) argue that workers in nations with individualistic cultures enjoy greater freedom to develop and experiment with new ideas. Independent thought and originality have been linked to national culture and innovation (Andrijauskiene & Dumciuviene, 2017; Khan & Cox, 2017). Cultures with higher levels of independence, as highlighted by Prim et

al. (2017), afford individuals more opportunities to generate and implement ideas, thereby fostering creativity. Innovation and individualism are closely connected because individuals in individualistic cultures feel more comfortable expressing their thoughts, as noted by Andrijauskiene & Dumciuviene (2017). The freedom of expression can, in turn, promote innovation and creativity (Khan & Cox, 2017). Building upon this premise, the seventh hypothesis was formulated.

H7: There is a significant positive relationship between individualism culture and product innovation.

In the fourth dimension, uncertainty avoidance, community members are assessed for discomfort with uncertainty and ambiguity (Hofstede, 1983). Culture promotes the development of this emotion in unfamiliar or unorganized conditions (Piet, 2017). This dimension refers to how society handles future uncertainties, whether it controls them or lets them happen (Hofstede, 1983). According to Piet (2017), cultures with strong uncertainty avoidance tend to follow strict belief and behavior standards and have minimal tolerance for divergent ideas. Low uncertainty avoidance cultures emphasize practical application above theoretical underpinnings (Hofstede, 1983).

Andrijauskiene and Dumciuviene (2017), Kaasa (2016), and Shane (1993) all show that uncertainty avoidance hinders creativity. This means that innovation increases with lesser uncertainty avoidance. Organizations with high uncertainty avoidance tend to take risks cautiously, according to Van Everdingen and Waarts (2003). These companies only implement innovations after proving their market value. Woodside et al. (2020) state that supporting entrepreneurship promotes innovation, whereas cultural differences affect entrepreneurship and innovation levels. Dornelas (2003)

states that innovation involves developing and implementing new products and services, rejuvenating the organization. Entrepreneurs must find and understand new prospects and adapt, improve, or invent their products to meet customer wants. So, the eighth hypothesis was proposed.

H8: There is a significant positive relationship between uncertainty avoidance culture and product innovation

2.3 Product Innovation

Businesses and nations must engage in innovation to foster growth. Cognitive skills necessary for innovation facilitate the diffusion of new ideas, encouraging entrepreneurship. According to Ledzik (2013), innovation potential, recognized as a source of competitive advantage, stands out as a significant variable influencing a company's growth (Fonseca-Retana et al., 2016). In response to this, the United Nations Development Program has outlined objectives for Agenda 2030, including the promotion of scientific research, expansion of public and private investment in research and development (R&D), and the enhancement of technological capacities in industrial sectors globally. This includes a focus on developing countries, aiming to foster innovation and substantially increase the number of workers engaged in R&D per million population (United Nations Sustainable Development Goals).

According to Marin-Idarraga and Cuartas-Marin (2019) and Norris and Ciesielska (2019), innovation is a significant aspect of growth strategies that aim to expand a firm's financial performance, enter new markets, and give it competitiveness. Innovations are therefore a crucial part of business strategy, as they enable the adoption of more efficient manufacturing techniques, enhance market performance, foster a favourable consumer reputation, and

secure a long-term competitive advantage (Gunday et al., 2011). Demonstrating the potential of combining technological advancements and new knowledge to generate novel uses for products or to build product innovations on such combinations underscores the synergy between technological progress and creative applications. Business owners leveraging these advancements optimize the benefits of new product development, a key driver of operational effectiveness and, consequently, firm success (Aksoy, 2017).

The primary objective of product innovation is to enhance business profits by introducing new products or modifying existing ones to better meet customer needs (Jusufi et al., 2020; Ramadani et al., 2019). However, as highlighted by Sok and O'Cass (2015), this necessitates creative and analytical capabilities within the R&D departments. Simultaneous utilization of these two approaches can, however, potentially limit the contributions of collaborators and impact financial performance. A vital management strategy involves enhancing market share and ensuring improved firm performance (Demmel et al., 2017; Shin et al., 2022).

Therefore, by developing new products, a firm can enhance its market leadership in terms of profitability (Demmel et al., 2017; Shin et al., 2022). Even if the sustained profitability of these items is not guaranteed, a company consistently introducing new products can maintain high-level operations (Falahat et al., 2020). Farida and Nuryakin's (2021) research suggest that a firm can elevate its performance in terms of product innovation by engaging in three crucial activities: knowledge transfer, networking capabilities, and establishing partnerships with other stakeholders.

Based on the discussions, the following research hypothesis can be proposed:

H9: Product innovation is positively related to firm performance

Various studies have consistently demonstrated that product innovation directly influences firm performance (Ramadani et al., 2019). Earlier research has also proposed that the relationship between national culture and firm performance is mediated by product innovation. Knein et al. (2020) argue that national culture influences product innovation, thereby enhancing firm performance. Building on this discussion, the following hypothesis has been formulated:

H10: The relationship between power distance culture and firm performance is mediated by product innovation.

H11: The relationship between masculinity culture and firm performance is mediated by product innovation.

H12: The relationship between individualism culture and firm performance is mediated by product innovation.

H13: The relationship between uncertainty avoidance culture and firm performance is mediated by product innovation.

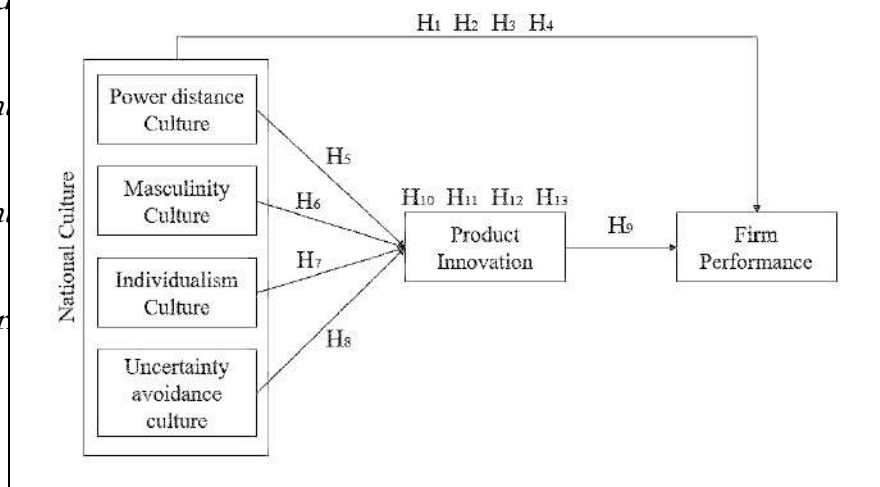


Figure I: Conceptual Framework

3. METHODOLOGY

3.1 Data collection

This study collected data via an online questionnaire. This study sampled small- and medium-sized manufacturing companies in Punjab, Pakistan. This quantitative study analyses manufacturing SMEs in Punjab, Pakistan. The main objective is to reveal how product innovation affects the relationship

between firm performance and national culture. The questionnaires were emailed to managers of Punjab SMEs through a Google link. Using the renowned NIIR business database, 800 questionnaires were emailed to manufacturing SMEs. Researchers often use this directory as the most comprehensive source of information on the performance of Pakistani firms (Baker et al., 2019). The distributed surveys yielded 280 questionnaires.

3.2 Profile of respondents

The study has 76% male participants. The data shows 28.8% of participants are 45 or older. Additionally, 25% of responders are under 35, while 38.7% are 30–38. Finally, 7.5% of respondents are 38–44 years old. 34.3% of people have 5–10 years of professional experience. Additionally, 18.3% have 10–15 years of experience. In addition, 21.8% of people have over 15 years of experience. Lastly, 25.6% have less than 5 years of professional experience. Most respondents (86.6%) have master's degrees.

3.3 Measures

National culture was measured using 14 items from prior research, including those by Wahjudi et al. (2016). National culture includes power distance, masculinity, individualism, and uncertainty avoidance. These aspects are linked to three organizational practices. Power distance and uniqueness cultures were examined using 4 items, while masculinity and uncertainty avoidance cultures were assessed using 3 items. The dimensions were rated on a five-point Likert scale from strongly disagree (1) to strongly agree (5). The 5-item scale measured innovation. The product innovation scale was adapted from Kim-Soon et al. (2017). The researchers measured firm performance using Singh et al. (2021) three-item scale.

4. Results

Researchers analyzed data using Smart PLS 4.0. PLS-SEM is applicable to both complex and basic models, according to Hair et al. (2014). Preacher and Hayes (2004) argue that PLS-SEM is superior to regression analysis for evaluating mediators. Schumacker and Lomax (2004) recommend PLS-SEM for measuring measurement error and detecting mediation effects. SmartPLS is efficient for sophisticated models regardless of the normality principle of validation, according to researchers. SmartPLS also works for simple models.

4.1 Measurement Model

The measurement methodology assessed the reflective construct's convergent, discriminant, and internal reliability. Table I shows factor loadings from 0.809 to 0.944. Hair et al. (2014) recommend 0.50; however, these numbers exceed it. The examination found that individual products are reliable. If the observed value falls between 0.50 and 0.40 and does not conflict with the average variance extracted (AVE) and composite reliability measures, it should be retained. Internal consistency reliability can be measured because the composite reliability of all components is high. Hair et al. (2014) recommend a composite reliability value of 0.60.

There is a range of acceptable composite reliability values (0.60-0.70) and good values (0.70-0.90). The range of 0.90 to 0.95 is concerning, though. Every structure has a composite reliability > 0.60, according to the values in Table I. The study achieved construct reliability. The similarity of variables is measured by convergent validity (Rehman et al., 2019). A range of 0.510 to 0.689 is indicated by the AVE values in Table I. Average variance extracted (AVE) should be more than 0.50, according to Hair et al. (2014).

Table I: Construct Reliability and Validity

Constructs	Cronbach's Alpha	Composite Reliability	AVE
Firm performance	0.746	0.756	0.663
Individualism culture	0.755	0.713	0.668
Masculinity culture	0.787	0.748	0.689
Power distance culture	0.733	0.763	0.555
Product innovation	0.75	0.814	0.51
Uncertainty avoidance culture	0.729	0.744	0.643

Discriminant validity measures two indicators' distinctiveness statistically. It also assesses how much a variable differs from another empirically (Hair et al., 2014). In this scenario, personal variance (diagonal variation) must exceed the variance from other variables. This study used Fornell and Larcker's (1981) Table 2 approach to compare diagonal values with column values. Previous research has adopted this approach, including Rehman et al. (2019), Mohamed et al. (2019), and Zaman et al. (2021). The constructs are discriminant because AVE square roots are higher than the correlation.

Table 2: Fornell-Larcker criterion

Constructs	FP	IC	MC	PDC	PI	UAC
FP	0.814					
IC	0.23	0.712				
MC	0.482	0.647	0.763			
PDC	0.619	0.658	0.756	0.745		
PI	0.523	0.742	0.505	0.593	0.714	
UAC	0.463	0.788	0.614	0.593	0.783	0.802

Impact of Islamic Cultural Principles on Firm Performance: The Mediating Role...

Note: FP Firm performance, IC Individualism culture, MC Masculinity culture, PDC Power distance culture, PI Product innovation, UAC Uncertainty avoidance culture.

Previous research has provided a formula to quantify discriminant validity and contends that the usual metric is inadequate. Henseler et al. (2016) proposed the Heterotrait-Monotrait (HTMT) ratio as a new method for assessing discriminant validity. This investigation used traditional and modern methods. Each indicator usually has factor loadings between 0.65 and 0.85. Henseler et al. (2015) recommend 0.85 for theoretically related structures and 0.90 for conceptually divergent ones. Table 3 shows that each construct's HTMT ratio is below 0.850.

Table 3: Heterotrait-Monotrait (HTMT) ratio

Constructs	FP	IC	MC	PDC	PI	UAC
FP						
IC	0.332					
MC	0.743	0.737				
PDC	0.792	0.777	0.838			
PI	0.642	0.431	0.744	0.778		
UAC	0.601	0.274	0.847	0.787	0.416	

Note: FP Firm performance, IC Individualism culture, MC Masculinity culture, PDC Power distance culture, PI Product innovation, UAC Uncertainty avoidance culture.

The best R² threshold depends on the situation, but it's usually below 0.10. Henseler et al. (2010) found that R² values of 0.67, 0.33, and 0.19 are substantial, moderate, and modest, respectively. Table 4 shows a moderate

association between firm performance and product innovation ($R^2 = 0.37$). The R^2 values of 0.674 and 0.669 indicate that Power Distance Culture, Masculinity Culture, Individualism Culture, and Uncertainty Avoidance Culture account for 60% of the variation in firm performance and product innovation.

Table 4: R^2 values

Endogenous constructs	R^2	Adjusted R^2
Firm Performance	0.274	0.271
Product Innovation	0.674	0.669

4.2. Structural Model

The structural model is explained in this section. The p-value and t-value were calculated by researchers to assess the structural model's hypotheses. If the t-value is less than 0.05 or greater than 1.96, the hypotheses are accepted. According to the analysis, power distance culture has a substantial impact on firm performance ($\beta = 0.118$, t-value = 2.843), which is consistent with earlier research by Rangus & Slavec (2017) and Nguyen et al. (2019). Performance in manufacturing SMEs may be impacted by a strong power distance culture. There is no statistically significant correlation between the masculinity culture and firm performance ($\beta = -0.092$, t-value = 2.82). A masculinity culture is not necessary for manufacturing SMEs in Pakistan.

Studies reveal that an individualistic culture has a major impact on firm performance ($\beta = 0.152$, t-value = 3.905). Song et al. (2018), Ho et al. (2012), and Peng et al. (2012) also found a link between individualistic culture and firm performance. Manufacturing SMEs must be flexible to react to changing laws and technology. Thus, an individualized culture improves firm performance. Studies reveal that an uncertainty-avoidance culture has a

Impact of Islamic Cultural Principles on Firm Performance: The Mediating Role...

significant impact on firm performance ($\beta = 0.281$, $t\text{-value} = 6.226$). However, the firm's flexible operations allow it to use innovative methods to meet customer demand. Include a willingness to accept and implement new technology and practices in firm performance.

Present research shows a strong correlation between power distance culture and product innovation ($\beta = 0.222$, $t\text{-value} = 3.319$). The conclusions of this work are supported by (Shane, 1993; Kaasa, 2016; Andrijauskiene & Dumciuviene, 2017). Manufacturing SMEs must consider the power distance culture when adopting new technologies to improve customer handling and management. This is crucial to better performance. The present study found no significant correlation between masculinity culture and product innovation ($\beta = -0.176$, $t\text{-value} = 2.867$) (Kaasa, 2016; Khan & Cox, 2017). The arguments for this culture are often too broad, reducing its importance to product creation alone.

The correlation between individualism culture and product innovation is substantial ($\beta = 0.290$, $t\text{-value} = 3.885$). These findings contradict those of Lin (2017) and Péli (2009), who found that individualism culture is key to product creativity. Individualism culture in manufacturing SMEs refers to their ability to handle customers and innovate. Uncertainty avoidance culture positively impacts product innovation, as evidenced by a beta coefficient of 0.532 and a $t\text{-value}$ of 8.132. These findings are consistent with studies (Williams & McGuire, 2005; Kaasa, 2016; Andrijauskiene & Dumciuviene, 2017). The ability of SMEs to adapt technological and operational changes is shown through uncertainty avoidance. By adopting better practices, companies can boost performance.

This study investigated a significant link between product innovation and firm performance, supporting the hypothesis ($\beta = 0.528$, t -value = 9.471). The above findings match prior research Hall et al. (2013) and Stojic and Hashi (2014). Product innovation in manufacturing SMEs is either highly defined and focused on specific goals or articulated broadly and may have a significant impact on company success.

This analysis shows how product innovation mediates the link between power distance, masculinity, individualism, uncertainty avoidance, and firm performance. SMART PLS software was used to study mediation via bootstrapping. Cheung and Lau (2008) showed that bootstrapping helps evaluate mediation. The mediator used this procedure to get a 95% confidence interval. Product innovation mediates the relationship between national culture (power distance, masculinity, individualism, and uncertainty avoidance) and firm performance, Aboramadan et al. (2019), Hogan and Coote (2014), Uz Kurt (2013), and Zafar (2016) found that product innovation mediates. According to hypotheses H10–H13 Product innovation significantly mediates the relationship between PDC and firm performance ($\beta = 0.118$, t -value = 2.843). The current research paradigm shows that high engagement promotes operational process innovation. This involvement also helps identify a range of customer management techniques and issues. Thus, the innovation converts high involvement into improved organizational performance. In contrast to Aboramadan et al. (2019) and Zafar et al. (2016), masculinity culture affects firm performance through product innovation ($\beta = -0.092$, t -value = 2.820). SMEs in the manufacturing sector must follow certain practices to provide consistent customer service. Thus, these procedural characteristics offer few potentials for innovation. Thus, masculinity culture has an impact on product innovation and firm performance.

Previous research by Uz Kurt et al. (2013), Zafar et al. (2016), and Aboramadan et al. (2019) found that product innovation mediates the link between individualism culture and firm performance ($\beta = 0.152$, t-value = 3.905). Individualism culture is a key differentiator in the manufacturing business studied. This culture encourages product innovation through legislative changes and technology upgrades. An individualistic culture, as reflected in unique practices, helps small and medium-sized firms improve performance. The last hypothesis examined whether product innovation mediates the relationship between uncertainty avoidance culture and firm performance. The study supports the hypothesis ($\beta = 0.281$, t-value = 6.226) but contradicts prior studies by Hall et al. (2013) and Stojčić and Hashi (2014). Innovation can boost performance in industrial SMEs. Government regulatory bodies shape SMEs' culture of uncertainty avoidance. This culture may not promote innovation, thereby affecting firm performance. Table 5 shows that the data support all hypotheses.

Table 5: Hypotheses Results

Hypotheses	Path	β -value	S. D	t-value	p-value	Results
H1	PDC → FP	0.118	0.040	2.843	0.004	Supported
H2	MC → FP	-0.092	0.032	2.820	0.005	Not supported
H3	IC → FP	0.152	0.039	3.905	0.000	Supported
H4	UAC → FP	0.281	0.045	6.226	0.000	Supported
H5	PDC → PI	0.222	0.065	3.319	0.001	Supported

H6	MC → PI	-0.176	0.061	2.867	0.004	Not supported
H7	IC → PI	0.290	0.076	3.885	0.000	Supported
H8	UAC → PI	0.532	0.065	8.132	0.000	Supported
H9	PI → FP	0.528	0.055	9.471	0.000	Supported
HI0	PDC → PI → FP	0.118	0.040	2.843	0.004	Mediation
HI1	MC → PI → FP	0.092	0.032	2.820	0.005	Mediation
HI2	IC → PI → FP	0.152	0.039	3.905	0.000	Mediation
HI3	UAC → PI → FP	0.281	0.045	6.226	0.000	Mediation

Note: FP Firm performance, IC Individualism culture, MC Masculinity culture, PDC Power distance culture, PI Product innovation, UAC Uncertainty avoidance culture.

5. Conclusion

This study analyzes the impact of Islamic cultural values on firm performance, particularly exploring the effect of product innovation in small and medium-sized enterprises (SMEs) in Lahore, Pakistan. By integrating Hofstede's cultural dimensions, such as power distance, individualism, masculinity, and uncertainty avoidance, with Lahore's Islamic cultural values, the findings demonstrate the practical rationale for how Islamic culture contributes to firm performance and product innovation.

The study's findings indicate that Islamic cultural principles foster an ethical, cooperative environment, trust, organizational citizenship, and accountability. Together, these factors create an environment conducive to innovation. The study also found that product innovation played the most important role in improving firm performance in an Islamic cultural context. The study also found that organizations that incorporate Islamic ethical standards into their management systems are the most capable of fostering an environment of creativity, flexibility, and continuous improvement. Ultimately, these factors lead to improved organizational performance.

It is noteworthy that no significant relationship was found between aspects of masculinity and innovation outcomes, which indicates that Islamic culture, unlike other cultures, focuses more on communal, moral, and moderate behaviors rather than on aggression and unruliness. Overall, the findings support the idea that culturally rooted Islamic principles serve as positive change agents in organizational structures, capable of transforming organizational performance through innovation. This study adds to the few empirical studies that attempt to link the principles of Islamic culture, innovation, and firm performance, particularly in the context of small and medium-sized enterprises in Pakistan and offers Islamic management as a means to embed these principles within the organization to make them effective.

Policy and Practical Implications

The results present key aspects of the roles of small and medium-sized enterprise (SME) owners and managers, as well as policymakers, in Islamic cultures. First, SME managers should view the principles of Islamic culture

not merely as social or religious values but as potential strategic organizational opportunities. Advocating ethical leadership, shura (consultation), trust, accountability, and participatory/democratic leadership can provide a strong foundation for enhancing the organizational environment with respect to product innovation and overall performance.

Furthermore, the organization must establish models of innovation in accordance with the Islamic ethical framework. Such policies should be based on advocating stakeholder participation, supporting knowledge exchange through teamwork, and promoting collaborative decision-making. Improving the innovation environment through fairness and transparency, empowering employees, and fostering a culture of continuous learning will inevitably enhance organizational competitiveness.

Policymakers and business development organizations should develop support strategies for SMEs in Pakistan that integrate innovation creation with culturally appropriate management practices. Training in innovation management within the framework of Islamic ethics for SMEs will enable them to adapt more effectively to changing environmental conditions and sustain their competitive advantages over time.

Furthermore, an Islamic framework for innovation and incentive reward systems will strengthen SMEs' operational performance and long-term sustainability. Islamic values, combined with innovation, can help SMEs perform better in challenging markets by encouraging creative, responsible risk-taking and risk-management practices grounded in ethical principles.

Limitations and Future Research Directions

This research has several limitations; in particular, this study was confined to manufacturing SMEs in Lahore, Punjab, and its findings may not be applicable to other locations or industries. Future research could focus on service- and technology-based industries in other provinces of Pakistan to enhance external validity.

This study employed a quantitative methodology; however, future studies could use qualitative or mixed methods to better understand the impact of Islamic cultural values on the innovation process. Other studies could focus on process, organizational, or digital innovation to better understand the relationship between Islamic culture and firm performance.

Further research on the impact of Islamic cultural values on other business environments is needed to provide the Islamic management field with a better understanding of this phenomenon and to address culture-based innovation models for improving organizational performance.

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