

# Creating a Culture for Innovation

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Not all organizations need to innovate, though all need the ability to be nimble and to be ready to make significant changes. What is not often realized by CEOs and others is that often what is needed is rapid adoption of innovation— the taking up and applying the ideas of others rather than concentrating on innovation itself. What corporations and firms need to do is to quickly apply innovations, whether their own or other people's. In order to institute any change— whether it is encouraging innovation, rapid adoption or a major strategic change— it is important to get the culture right. Without that, no transformation is possible. With it goes having the right leadership and sufficient trust— colleague of colleague, employee of manager (and vice versa), and in the organization as a whole.

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**A**lmost every organization that my firm and I work with claims to prize innovation. I hear the same thing from law firms seeking new ways to develop business, insurance companies, mining giants, builders and not-for-profits. They all want a 'culture of innovation.'

Personally, I think that there is no such thing. What is really needed is a culture which enables innovation, or rapid adoption of innovation, to take place. Such a culture is what I call a 'culture for innovation.'

And yet few of the leaders I speak to are prepared to do what is necessary to create such a culture. The kind of management style favored by the leaders of most companies would have to be unlearned to permit a real culture for innovation to take root.

The other problem is the amount of sheer denial, even now, around the need for real change. If you think that the times we are living through are an aberration and that the world will soon revert to a pre-2008 'normal,' there is less reason to look carefully at the processes and leadership styles which prevent innovation from taking place.

I spoke to a group of Australia's top lawyers the other day and they tried to convince me that the present, rather painfully slow, situation is purely cyclical and that things will soon return to 'business as usual.' This was an exercise in wishful thinking. In the business world as it is today, even lawyers have to innovate. Their clients can get advice from online law sites (for example, My Law Firm in Australia or Free Advice in the US) and save thousands of dollars.

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Indeed, there are law firms now that are almost virtual, which innovate as a way of life and try to survive in an era where all legal expertise is a commodity.

Darryl McDonough, the Chief Executive Partner of Clayton Utz, perhaps the most progressive of Australia's largest law firms, puts it this way: "You either innovate or the market and your competitors will leave you far behind. Law is a service industry; as such it is important, indeed vital, you continually innovate to improve the offer/service to clients in order to stay ahead of the market."

I work with a property development company that wants to innovate— but only in its sales department. The main obstacle to broader innovation up to now has been their CEO, whose management style seems rooted in the deep past of the pre-Lee Iacocca 20<sup>th</sup> century. I pointed out to him that he could not sack a large percentage of his workforce to save costs and then expect the rest to feel the safety necessary to be great innovators. The human brain does not work that way.

There is considerable confusion as to what innovation means and whom you want to be the innovators. Is it everybody in the company? Is it only one or two departments such as R&D or sales? Is what is needed really innovation or is it more the adoption of new ideas, or a combination of both? Almost every organization recognizes that they need, to some extent, to innovate, or to adopt the innovations of others, in order to survive the increasing competition and market restructuring that the 'new normal,' as a famous Deloitte research paper called it, demands.<sup>1</sup>

Every business has to adapt to the new rules of the game— ongoing economic uncertainty,

reduced consumer demand, the vastly expanded role of social media in every area of business, and higher structural unemployment than was previously thought possible.

And a huge number of diverse businesses are adapting to changes. A village hairdresser in Nigeria may have a webpage and a Facebook account. A graphic designer in Montana is perhaps competing for business with a firm in Vietnam; both using social media as their main marketing tool. In the future, there will be fewer viable purely local businesses serving only local customers. The hairdresser and the graphic designers are adopting innovation, but they are not innovating. And for the majority of companies that may be O.K. Most do not need to innovate, only to adopt and adapt.

But for medium-sized and large corporations, high-tech or otherwise, or substantial professional service firms, or even for organizations working in the arts, this is not good enough (Throsby et al., 2010). They have to innovate, adopt, and reinvent themselves, on an almost continual basis.

In my 20 years of observing organizations of all shapes and sizes, what I believe to be certain is that any organization cannot be truly innovative, or adoptive unless it has a culture that allows for, and encourages, innovation and rapid adoption.

### The First Steps to Innovation

The invention of the iPhone seems to have been a seminal moment in the minds of corporate leaders. Suddenly, they all wanted to transform their companies into Steve Jobs' Apple Corporation. Innovation became a synonym for technological innovation, the realm of the R&D departments, of the boffins and the geeks. It became part of the drive for technical perfection

<sup>1</sup> [http://www.deloitte.com/view/en\\_US/us/Services/consulting/feature-offerings/enterprise-cost-management/c744c1d3f2821310VgnVCM2000001b56f00aRCRD.htm?id=us\\_furl\\_cons\\_db\\_q1pgroadmap\\_111511](http://www.deloitte.com/view/en_US/us/Services/consulting/feature-offerings/enterprise-cost-management/c744c1d3f2821310VgnVCM2000001b56f00aRCRD.htm?id=us_furl_cons_db_q1pgroadmap_111511)

and to be one step ahead of the market in the unending cycle of new smartphones, tablets, and social media sites.

But tech innovation is only one part of the story and it is the end product of a much deeper change. Indeed, this kind of innovation—essentially making better tools—is not even unique to humans. Experiments in Germany have shown that a cockatoo (a kind of parrot) is capable of inventing ‘innovative’ tools to solve particular problems.<sup>2</sup> The bird may never come up with an iPad, but that is not the point, she is a technological innovator of some skill.

It has been recognized for a number of years that innovation begins with the way the organization is managed, and in the organization’s culture (Chandy et al., 2008). There are a number of what I call ‘cultural fundamentals’ which are the necessary precursors of more surface technological modifications such as the wheel, Henry Ford’s production line, a new drug for Alzheimer’s, the tablet computer or even the iPhone itself.

These cultural fundamentals involve the way we manage people, how safe we make them feel, the way we relate to each other, the way we hold our meetings, the way we motivate, the way we inspire and unite our people to become one tribe, the way we coach and develop leaders, the way we persuade and influence our customers and our society, and the way we encourage experimentation among our employees. It is in these areas that necessary first steps to innovation take place.

Research has shown that in today’s business environment, there is one management style that is preeminently the style that promotes innovation and successful adoption. This is what

is called Transformational Leadership (Jung et al., 2003). The term was coined by James Macgregor Burns in 1978 to describe a form of leadership which was people-centered, which focused on individual development, good role modeling, challenging objectives and an energizing vision. According to Burns, “leaders and followers help each other to advance to a higher level of morale and motivation” (Burns et al., 1978).

In my experience, it is only transformational leaders who are able to inspire their organizations to make the fundamental changes that will lay the framework for the marketing and technological ‘innovations’ so prized by the admirers of Steve Jobs and Apple.

### What Makes a Culture for Innovation?

So what are the management essentials which allow the creation of a culture that enables innovation and rapid adoption to take place? I believe that there are nine of them. Each is vital if you want people to innovate, to come up with genuinely new ideas, or new ways of working. They hold true, whether it is within a corporation, a firm, a sports club or a nation. Developing them to suit your organization, implementing them in a way so as not to antagonize the ‘counter culture’ which exists in every medium-sized and large organization and getting people committed to the process, are essentially the job of the modern leader. The nine essentials are:

#### 1. Trust

Especially between peers, between employees and managers, and in the organization itself.

Without trust innovation dies. Even if a natural-born innovator works in your organization, if she does not trust her superiors or her colleagues

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<sup>2</sup> Science Now, November 5, 2012, available at <http://news.sciencemag.org/sciencenow/2012/11/the-innovative-cockatoo-figaro.html?ref=em>

or the organization itself, she is not going to share her innovations. They will be lost to the firm or the corporation. This is one of the reasons that before we work with an organization to effect a new strategy, or introduce new risk and compliance procedures, or new marketing operations, we run an audit to find out the level of trust at all these three levels. In our experience, if any organization falls below a certain score on the Fortinberry Murray Trust Audit, we can confidentially predict that it will fail both to be innovative and to successfully effect any major change. It is the leader's role to engender the requisite amount of trust his people have in him and the process to ensure its success. Recent research shows that only a transformational leader can adequately do this (Barling et al., 1996).

## 2. Acceptance of Failure

David Brown, the COO of Wesfarmers Insurance (WI), one of the largest insurers in Australasia, was given the task of completely reorganizing the structure of WI which had been previously split into three different companies within the Wesfarmers' umbrella. This meant that people had to be reenergized, moved to new jobs, and inspired to find creative ways to solve problems that previously had not been thought of. At the beginning of the process, I spoke with him on a number of occasions to outline the work we were planning in the area of culture change—making the culture receptive to the changes that would be forthcoming. In one of these exchanges, he outlined his philosophy in terms of creating more innovation among WI's employees:

“Leaders must remain ever mindful of the need to create an environment where dynamic thought and ideas are encouraged and rewarded—this includes those that are unsuccessful. Regular, free form and diverse forums must be part of the business-as-usual processes. Give out some lead and back those

who are prepared to take calculated risks. A leader must increase his or her personal risk appetite. This includes giving up what some may perceive to be control, but in reality is an investment in the teams' collective innovative energy.”

A few corporate leaders are prepared to allow for the freedom that this philosophy implies. They are afraid of the failures that it allows for. Many have even instituted what they call a 'no defect policy.' It sounds good, but in the medium to long-term it is a disaster. What happens is that it leads to rigidly-adhered-to procedures which stifle innovation. People are afraid to try something new in case it fails. You get small successes in the short-term but big failures overall. The filmmaker Woody Allen put it neatly: “If you're not failing every now and then it shows that you're not doing anything very innovative.”

The trick in celebrating failure is not to follow the usual, clichéd advice to 'learn from your mistakes.' In fact, modern research shows that the more you concentrate on your mistakes, the more you will repeat them (Histed et al., 2009). Rather it is to ask the more intriguing question “What did I do right, which, if I do more of, will lead to success?” Concentrating on what employees did right, even when the immediate outcome is bad, primes the brain for innovation going forward (Histed et al., 2009).

Every coaching session, every performance review must concentrate on helping the coachee or the reviewee to understand and repeat what they did right and what they need to do more going forward (which does not mean that you cannot point out their mistakes). In the words of a Johnny Mercer song, “You've got to accentuate the positive, eliminate the negative, and latch on to the affirmative.” That is the key to learning and innovation.

### 3. The Establishment and Nourishing of X-Teams

As David Brown implied, in the earlier quote, and contrary to generally accepted folk law, innovation is mostly a team effort. Granted some of the really great innovative ideas have been like the proverbial light-bulb going on, but these are the famous exceptions and a corporation waiting around for one of its employees to have the 'Eureka!' epiphany will almost certainly be disappointed.

Many leaders recognize that it takes a dedicated team to come up with the new. But it takes a special kind of team. Truly innovative teams are what the researchers at MIT call 'X-Teams.'<sup>3</sup> These are designed to pull together internal and, more importantly, external thinking to bring new ideas into the organization. Going outside is a priority from day one.

X-teams are selected not only for their expertise, but also for their contacts outside their departments or their organizations. They will discover and analyze what is new and useful in what others are doing, especially in their failures. To an X-team, it is not what caused an innovator to fail that is of primary importance. It is what they did right that was ignored. True innovation is often a matter of taking such disparate ideas and melding them to make something really novel. It was just such a team, and such a methodology, which led Motorola to create the first flip cell phone.

### 4. Promoting Regular Communication Between Staff (the Water Cooler Effect)

The more opportunities employees have for informal contact with each other, the more creative and innovative they will be. Cisco famously found this when they decided to improve productivity by reducing the number of water coolers in their

offices. Innovation plunged. They restored them and encouraged people to use them and gave them time and opportunity to socialize. The rate of innovation went up. Since then the idea has become widely accepted and even digitized so that more and more people can share ideas by virtually socializing. In fact, they call these chatrooms 'digital watercoolers.'

The leader's job here is to promote communication and remove the restrictions to face-to-face and virtual informal sharing of ideas. That this is hugely more productive of new ideas than formal group brainstorming has been known since the 1970s (Lamm et al., 1973), yet formal brainstorming is still preferred in many organizations over allowing more informal gatherings.

With the increasing trend to home-office work arrangements, and the multinational nature of many teams, there are fewer opportunities for face-to-face socializing. For this reason, the role of these digital watercoolers will become vital to an organization seeking innovation. Some really progressive corporations such as Australia's Macquarie Bank have cottoned on to this and have established areas where employees can have virtual meetings using the most sophisticated video communication equipment.

### 5. Safety - Physical and Emotional

Contrary to many cherished beliefs, people innovate most often when they feel safe, not when they feel under threat (Baer et al., 2003). People who fear for their jobs, experience bullying directly or indirectly, or feel that they are not supported by their managers, will not be innovative. They may work harder, do more, but will not try anything new or be creative. This is one of the reasons transformational leaders are more successful. They take the time to make

<sup>3</sup> "X-Teams: How to Build Teams That Lead, Innovate, and Succeed", MIT Leadership Center, available at <http://mitleadership.mit.edu/pdf/X-Teams-researchbrief.pdf>

people feel supported and safe (Bass et al., 2006). Importantly, this means feeling safe enough to challenge accepted ideas— even those of the leader. In my experience, this is rare in most businesses.

#### 6. Praise for New Ideas

Nothing encourages innovation more than praise. Praise unleashes the primary neurochemicals behind innovation, and trust— dopamine and oxytocin (Zac et al., 2010). Most importantly, a leader has to specifically praise the innovation or adoption attempts that she wants to encourage, even if they do not work. General praise of the ‘well done team!’ variety is useless. Rather she must recognize and praise ‘how’ a person or a team works, what they are doing differently, and the new ideas they are coming up with.

#### 7. Encouraging Good Listening Techniques

A good innovation leader is, almost above all, a good listener. She takes the time to really hear what people are saying to her without interrupting without giving advice and without talking about herself. She asks questions to elicit more details, being careful to show, by echoing or reframing the words the person speaking to her has used, that she is really listening. She will also make sure that all her managers are trained to be good listeners. The trouble is that the overwhelming majority of leaders and managers are really bad listeners. A manager or leader who wants to encourage innovation must show by their listening that they are interested in the person as well as their output. That way you get commitment, and through commitment you get safety and through safety, innovation.

#### 8. Encouraging Suggestions from Everyone and Responding

The most innovative companies are those that welcome suggestions from everyone. This has

become so accepted that it is almost considered a cliché. However, most organizations that I know of do not really do it, except within a very limited area. A new suggestion from the factory floor which improves moving goods is great. But beyond that?

Not long ago I was working with the finance department of a major US construction company. One of their senior managers came up with a brilliant new way of collecting and collating their financial data. Time, and therefore money, would be saved and accuracy would be increased. A win-win, one would expect. But instead of being given a bonus, or even promotion, an excuse was found to fire him. Why? Because the new system showed that the CEO’s profit forecasts were wrong. Much later, the SM was proven to have been right when the company’s auditors insisted on their adopting the new system. A year later, the CEO was forced out, but the SM was not offered reinstatement. Not all innovative suggestions are welcomed and not all innovators are rewarded.

“By their fruit shall you know them”, as the Biblical saying goes. A leader who asks for suggestions and then ignores them or does not follow through is doing his organization a great disservice. Too often, good suggestions are brushed aside with words like ‘we’ve tried that before’ or ‘that wouldn’t work’ or ‘it would cost far too much.’ What they fail to realize is that the suggestion, no matter how impractical, is merely the beginning of the conversation. It is the start of a process that Peter Senge calls ‘Generative Dialogue’ (Senge, 2006), in which true innovation is nurtured. We use this idea in teaching organizations the art of what we call High Performance Team Dialogue™.

#### 9. Reward Innovation

And innovation must be rewarded, and not just financially. Financial rewards do not, according

to all recent research, have a lasting effect (Mason et al., 2009). Public praise, recognition, an extra hour for lunch for a year, and increased responsibility are all examples of more effective rewards than financial ones. They add to the employee's or the team's sense of status, and thus to their wellbeing, mood and feeling of being valued. This will in turn encourage others to be innovative. I have seen this system work beautifully at Wesfarmers, a large Australian conglomerate, where Fortinberry Murray has worked on a number of culture change initiatives. The results included not only increased innovation but also increased collaboration and productivity.

An organization whose culture lacks any of these elements will probably not be very innovative. It is the leaders' and the managers' jobs to make sure that they are in place before they try to become a more innovative organization. It is not impossible after, but it is much more difficult. For example, a culture of praise takes time to implement and there will be many barriers against it, some cultural and some individual. People are just not used to giving and receiving praise and, by and large, do not do it well. But, as research by the Gallup organization has shown, the results of a successful implementation of such a culture are huge— not only for innovation, but also for the bottom line. They generally include a 20% increase in profits (Robinson, 2006).

### Innovation or Adaption?

Not all organizations need to innovate, though all need the ability to be nimble and to be ready to make significant changes. What is not often realized by CEOs and others is that often what is needed is rapid adoption of innovation— the taking up and applying the ideas of others rather than concentrating on innovation itself. Skillful adoption is what enabled Japan to recover after

the Second World War and China to become the major economic power it is today. Neither were great innovators, neither had the educational or commercial R&D capacity to innovate on a large scale. The United States had that in spades. Today, many economists claim that the slower growth rate of the US is due to its relatively slower rate of innovation adoption.

What corporations and firms need to do is to quickly apply innovations, whether their own or other people's. This diffusion of innovation can be seen most obviously in the smart phone industry and in fast food restaurant chains. Burger King and Wendy's have been recently making considerable inroads on McDonald's by quickly adopting the ideas and methods of their bigger rival (White, 2012), sometimes even applying them before McDonald's themselves.

In order to institute any change— whether it is encouraging innovation, rapid adoption or a major strategic change— it is important to get the culture right. Without that, no transformation is possible. With it goes having the right leadership and sufficient trust— colleague of colleague, employee of manager (and vice versa), and in the organization as a whole. Clayton Utz and Wesfarmers succeeded in establishing a culture of innovation because their leadership was willing to risk short-term failure for the longer-term outcome. It takes time to create a culture for innovation, but rapid adoption or innovation is impossible without it. ☺

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