

IBI Quarterly

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Dear Reader,

It is our pleasure to present to you an exciting new IBI Quarterly, Sebastian Theopold's study "From innovative products to innovative companies - Your company's organisational culture is key".

Innovation is key to all companies but remains a miracle to many. Read our IBI Quarterly to find out whether your company has the organisational culture it needs to support successful innovation.

It has been a very active autumn, so there is more news from IBI.

IBI network member Tao Yue just returned from a visit to her home town Shanghai. She will write about her impressions about this rapidly growing city, and the changes taking place in our next IBI Quarterly.

IBI core team member Ursula Brinkmann presented at the Sietar Europe Congress last September, and the Sietar USA Congress last week. Due to the initiative of Douglas Stuart from IOR Global Services, both congresses featured a one-day workshop on intercultural assessment tools, with the Intercultural Readiness Check being one of the instruments receiving lots of attention. Both workshops were received very well, which clearly shows the growing interest in the potential of intercultural assessment.

At Sietar Europe, a team of three - Doug, Ursula and Christine Ngayo from Accenture (France) - facilitated a panel discussion on fruitful frictions in the interface between global business and intercultural professionals. We constantly need to update our understanding of what our clients need if we want our expertise to be of benefit to them. Doug reported from two recent projects and the conclusions he drew from them; Christine presented a crystal-clear model about how intercultural professionals can make the results of their services measurable, and Ursula introduced some simple interventions that greatly enhance the effects of intercultural training.

Likewise at Sietar Europe, Ursula facilitated a discussion on the future of Social Capital in Europe, drawing on significant correlations she found between economic growth and cultural values. Initial results of the study are presented in an article for Altana's Think On Magazine, which she co-authored with Dr. Fons Trompenaars.

At Sietar USA, Ursula presented a recent re-analysis of the Intercultural Readiness Check, conducted with Dr. Dianne van Hemert from the University of Amsterdam. Our analysis of answers from 2659 respondents showed again that the IRC scales are very reliable, their validity was further supported by correlations with our International Orientation scale, and we furthermore found interesting effects of sector, gender and amount of previous experience abroad. The results were very well received, and we are currently looking into the possibilities of cooperating with some of our US American colleagues in 2006.

If you wish to receive more information about these studies and our contributions to the congresses, please don't hesitate to get in touch. So let's turn now to Sebastian Theopold's study on how to be an innovative company.

Sebastian Theopold, Ph.D.: From innovative products to innovative companies - Your company's organisational culture is key

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Introduction

Innovation has gained significant attention in the recent management literature. Large-scale developments like globalisation, fierce competition, stagnating markets combined with increased resource prices have forced entrepreneurs to reassess their management of innovation.

Innovation management tends to focus only on new products and responding to customer needs. A much wider range of factors, however, determines whether new products increase sales performance - in particular, company-internal conditions and the relationship between organisational culture and a company's ability to innovate. Entrepreneurs and managers need to understand these factors, and the relationships between them, in order to create an organisational climate that provides the basis for market oriented innovations.

The "Innovation trap"

Everyday language is full of words with a special ring to them. Innovation is one of them. Being innovative means being up-to-date. It is positive, crucial for the success of a company and something we can only support. But closer inspection reveals a more complex picture.

Dates from the national patent office show that while the number of registered patents in

Germany almost doubled between 1991 and 2001, Germany's economy grew just 1.9 % during these ten years. Apparently, the number of innovations tells only part of the story. More instructive is a nation's ratio of patents imported and exported. Germany's balance sheet has been negative for more than five years, that is, without foreign innovations the German economy would not even have reached a growth of 1.9 %.

Almost 90 % of the companies participating in our research consider themselves innovative. However, for 84% of these companies, new products accounted for less than a third of their overall sales. Despite intense efforts to rejuvenate their product portfolio, many companies fail to make their innovations part of their long-term success. Increasing the annual budget for innovation - as 70 % of the companies intend to do - will not suffice. Additional capital must also increase earnings. Innovation, however, may have the opposite effect, i.e., net earning may very well decrease. Extending the portfolio by innovative products means that more unprofitable products need to be handled and that the proportion of cash cows decreases. As a result, capital and resources are blocked, constraining entrepreneurial flexibility and making it ever more difficult to escape the "innovation trap". In sum, being innovative is very different from being an innovative company. Only an innovative company succeeds in profiting from its innovations.

Given the real and present dangers of the innovation trap, every company should regularly check its product portfolio for non-profitable products, as well as the ratio between profitable



and non-profitable products. Procter & Gamble thus realised that half of its sales in 2002 was accounted for by only 12 products out of their 250 product armada.

The premises of innovation

Most of today's products and services result from focused intellectual effort. But it no longer suffices to have the engineers focus their efforts on new products. Today, innovation is crucial to the entire organisation and as such affects all operations. Innovative ways of organising the company, decentralised structures, interdisciplinary modes of communication, efficient business processes and so forth - all of these are sources for innovation and competitive advantage. For innovations to improve results in the long run, managers need to understand the critical company-internal factors affecting this process.

Studies conducted by Dr. Wieselhuber & Partner have identified three pillars that directly affect the innovation output of modern organisations:

- The entrepreneur: He or she is the basis of everything. Their personality and zest for action are vital to any type of innovation.
- The innovation climate: Represents the capacity to act - the potential of ideas, the availability of resources and methods.
- The organisational culture: The patterns of behaviour and shared goals inherent to an organisation. A vital aspect of the managerial task is to create a culture of innovation.

Major deficits in one component cannot be counterbalanced by superior results in another component. Thus, companies must keep a watchful eye on each pillar and adjust them where necessary. It is management's primary task to sort out the interplay between the components and its impact on the power to innovate. The findings presented below shed more light on the kind of organisational culture required for successful innovation.

Creating a culture of innovation

Applying Cameron and Quinn's (1999) framework of organisational cultures (see below), we found that an organisation's culture directly affects or even determines its ability to innovate.

- Clan Culture: An organisation that focuses on internal maintenance with flexibility, concern for people, and sensitivity to customers
- Adhocracy Culture: An organisation that focuses on external positioning with high degree of flexibility and individuality
- Hierarchy Culture: An organisation that focuses on internal maintenance with a need for stability and control
- Market Culture: An organisation that focuses on external positioning with a need for stability and control

One hundred leading German companies participated in the study of Dr. Wieselhuber and Partner (2004), which we assessed in terms of their cultural profile and two major determinants of innovation:

- the number of ideas
- and the resources to realize innovations.



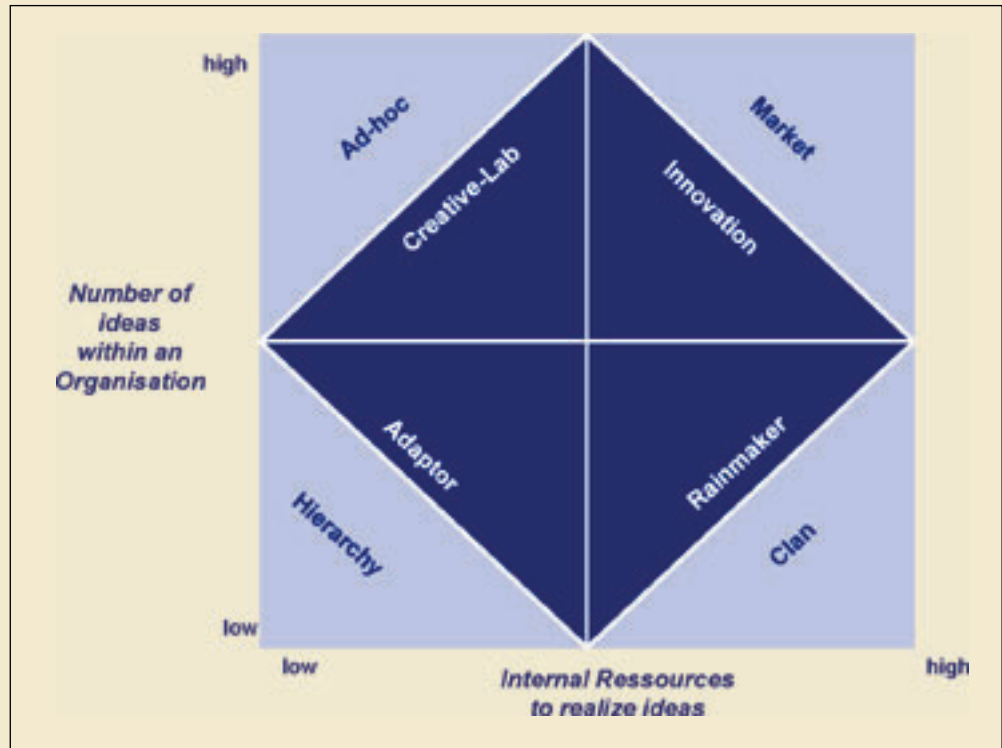
Results indicate that cultural profiles go paired with specific patterns of innovation.

Ad-hoc organisations are innovative despite limited resources - thanks to a high number of ideas. They find their way and benefit from their creative lab.

Hierarchy organisations have both limited resources and lack ideas.

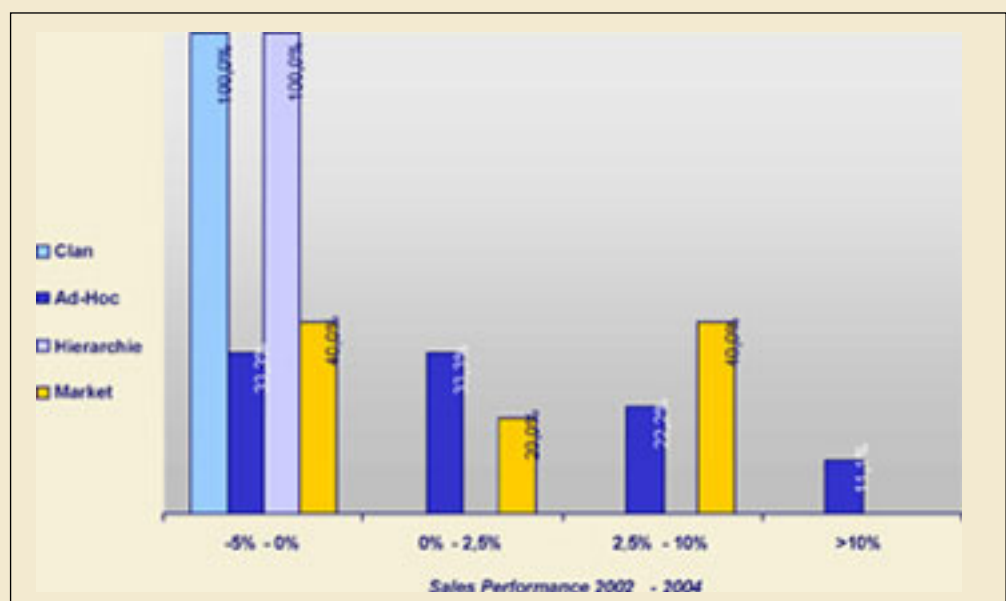
Employees are used to "top-down communications" and have learned to adapt to circumstances. In consequence, they also behave as adaptors when it comes to innovation.

Clan organisations are the "rainmakers". With shared efforts and supported by well established internal resources, they do what they can to transform the few ideas they have into profitable innovations.



Market cultures are the true innovators and always one step ahead. Plenty of ideas combined with strong resources provide the fruitful ground for launching market-oriented innovations.

The link between pattern of innovation and cultural profile directly impacts on operational performance. Sales performance of the last years reveals that only few companies could have substantially improved performance through innovation.



Company with hierarchy and clan cultures have the worst sales performance. Neither type could increase its overall sales figures, with lack of ideas, wait-and-see mentality and (paralysis?) stolidity as main culprits.

Only market and ad-hoc cultures managed to increase their overall sales performance, and only ad-hoc cultures grew by more than 10% despite fewer resources.

Implications for management

To make their organisations more innovative, managers need to fully understand the logic of success and failure underlying innovation. They must identify and activate their organisation's hidden potential if they want to have the "wheel of innovation" pointing in the right direction.

We cannot possibly address the full complexity of innovation management in this article. But we have found the following step-wise approach to be useful in helping managers turn good ideas into profitable products and solutions:

1. Identify your potentials areas of innovation:
 - Competitive environment and competitors' innovation strategy
 - Product Lifecycle
 - Your product portfolio in terms of cash and debt drivers
 - Investments in innovations and status of ongoing projects

2. Identify your organisational culture
 - Display current and preferred culture
 - Set up roadmap for change management

3. Methods and resources
 - Identify your toolset
 - Analyse the gap between what you have now and what you need in the future

4. Delineate Innovation Strategy and set up Business plan

Innovation requires the concerted effort of all members of the organisation. Changing the culture of your organisation may be the hardest step of all. We believe that our findings provide Intercultural Business Improvement and its clients a vital argument for not giving up on this change.

If you are interested in exploring the implications of this work for your own organisation, please don't hesitate to get in touch with us.

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