

Study finds that corporate culture is most important factor in driving innovation

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Innovation is integral to the growth, success and wealth of firms and nations. What predicts the increase of radical innovation, and the profits that often ensue, is a mystery most firms are trying to solve. The answer that trumps all others is closer to home than most probably realize.

"Corporate culture is, above all, the most important factor in driving innovation," said Rajesh Chandy, a professor of marketing at the University of Minnesota's Carlson School of Management and a charter member of the U.S. Department of Commerce's Advisory Committee on Measuring Innovation in the 21st Century Economy.

"Firm level factors are more important than anything else -- even location -- in predicting radical innovation," said Chandy. Underscoring this point in the paper "Radical Innovation in Firms Across Nations: The Pre-eminence of Corporate Culture," forthcoming in the next issue of the *Journal of Marketing*, Chandy and co-authors Gerard Tellis of the University of Southern California, and Jaideep Prabhu of Cambridge University show that among traditional drivers of innovation such as government policy, labor, capital and culture at the country level, the strongest driver of radical innovation across nations is corporate culture. They also find that the commercialization of radical innovations is a stronger indicator of financial performance than other popular measures such as patents.

"It is important to realize that all innovative companies look alike. They share a common culture no matter where they are located," states Chandy. "The corporate culture of innovative firms develops to

overcome aspects of their home economies that would otherwise hinder them."

Looking at data from 759 firms across 17 countries the researchers found that location is not the determining factor in the degree to which any given firm is innovative; but rather, the innovative firms themselves share key internal cultural traits. Innovation appears to be a function of the degree to which a company fosters a supportive internal structure headed by product champions and bolstered by incentives and the extent to which that organization is able to change quickly, keeping an eye on the markets of the future.

"It's unwise to think in terms of whether American companies are more innovative than other countries' firms. The hub of innovation is within the firm," said Chandy. "Managers have control over the fates of their firms in that they can help build the culture of innovation. A sharp manager would look across industries and countries to spot innovative traits and strategies."

Additionally, radical innovations (such as the iPhone or Viagra) translate into financial value for firms. "In times of economic trouble there is a temptation, often even an imperative, to say that innovation is something we can't afford right now," said Chandy. But radically new products, which involve substantially different technology and considerably higher customer benefits, are precisely what propel new growth. Chandy cautions firms to resist the tendency to stifle the internal culture that supports such innovations.

Source: University of Minnesota

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