

Executive Summary: Fostering Organizational Innovation

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Fostering Organizational Innovation

Organizational innovation is a fundamental source of value creation for a company, and key to its long-term survival. Leaders can foster organizational innovation by creating an open environment within the organization, but research also shows that employee motivation is a significant driver for innovation. Executive management can foster organizational innovation through transformational leadership where innovation is rewarded and mistakes are tolerated. Companies should invest in creating a corporate culture that fosters innovation among all of its employees since it can directly lead to growth and help ensure a company's survival.

Both Harvard Business School professor Theresa Amabile (1998, p. 123) and the Organisation for Economic Co-operation and Development (2005) agree that organizational innovation is the successful implementation of a new and creative organizational method in a company's business practices, workplace organization or external relations. Newell argues that the innovation doesn't have to be new to the world, just new to that organization (2010), which creates significant space for organizations to implement new, innovative, practices.

Innovation is an essential component of any successful organization as it ensures the continual generation of new ideas. Booz Allen Hamilton (2005, p. 1) says that innovation is a fundamental source of value creation in companies and an important enabler of competitive advantage. It is a key survival tactic that companies should use to remain relevant and at the cutting edge of their industry. E. Cefis and O. Marsili (2005, p. 1168) find evidence of an "innovation premium" - an 11% higher survival time for innovative firms and companies that are process innovators gain a 25% increase in

survival time. Hage (1999, p. 598) takes it further and states that a country's economic development, new employment opportunities, and positive balances of trade largely depend on the continued introduction of new products, services, and administration, putting organizational innovation at the center of protecting a nation's standard of living. With that backdrop, organizational innovation should be *the* central aspect of company (if not national) culture.

Evidence shows that many companies are beginning to recognize the importance of fostering innovation. The Wall Street Journal (2012) found that companies mentioned some form of the word "innovation" 33,528 times last year in annual and quarterly reports filed with the Securities and Exchange Commission, a 64% increase from five years before that. Innovation is an essential component of a successful business strategy, and companies are trying to label themselves as innovative when reporting to the public.

Organizational innovation starts at the individual level. Daft (1978, p. 206) found that innovations are often developed and proposed by individuals in an organization who are the experts in a particular task domain, and Raath (2012) found that innovation cannot be prescribed or delegated to these experts, it must come from their personal sense of passion for experimentation and innovation.

Individual motivation for experimentation can be increased by good leadership to help foster a greater sense of innovation within an organization. Managers can increase the intrinsic motivation employees have towards innovation by matching employees with assignments that are challenging and allowing them the freedom to innovate solutions to those challenges (Amabile, 1988, p. 76). Managers can also increase the cross-

fertilization of ideas, which Hage (1999, p. 604) found is the most important indicator of organizational innovation; the diversity in professional specialties of staff.

Managers themselves also play an important role in organizational innovation. When employees work with supervisors who are also intrinsically motivated to innovate, the collective innovation is increased (Tierney et al., 1999, p. 612). At the organizational level, overall managerial attitude toward change - a pro-innovation attitude in managers firm wide - plays a crucial role in the adoption of innovations (Damanpour, 2009, p. 513).

At the executive level, where top managers communicate the organizational climate, transformational leadership by the CEO can have a direct and positive impact on organizational innovation (Jung et al., 2003, p. 538). A CEO can create a culture where innovation is accepted and rewarded and mistakes are tolerated. Even more important for firm survival is the external cheer-leading role transformational leaders take with innovations in the marketplace. By championing innovations beyond traditional market boundaries externally, transformational leaders also ensure the market success of the innovations (Gumusluoglu, 2009, p. 470).

Therefore, we conclude that there are many factors that lead to organizational innovation. At the individual level, a predisposition towards innovation and passion for it is required and at the managerial level, fostering innovation among employees and exercising transformational executive leadership are critical. Given its positive impact on firm survival and corporate growth, companies should invest heavily in creating a corporate culture that fosters innovation among all of its employees.

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