



# INNOVATIVE CORPORATE CULTURE - A WINNING FORMULA FOR SUSTAINABLE COMPETITIVE ADVANTAGE

**Viruli de Silva**

Former Director Studies, Institute of Bankers of Sri Lanka

## Introduction

*“Innovate or die. With markets becoming less and less local, Canadian companies are being advised to compete globally based on their ability to innovate successfully. ... The Canadian Advanced Technology Alliance said recently that “looking at a pure cost, Canada can’t compete at the level of India or China; [but] when you move up in the engineering class or the highly innovative manufacturing talent, Canada ranks right up there.”*

*Robert Angel*

The above quote from a popular Business Management Journal in Canada is highlighted to emphasize the importance of innovation. “Innovate or die.” There is no question about how big or small you are as a company or a country, if you are not ready to change or innovate, be ready to die!

What is ‘Innovation’? It has been defined in many ways. In a management perspective, “innovation is the act that endows resources with a new capacity to create wealth” (Drucker, 1985). In the common usage, ‘innovation is the introduction of new things, new ideas, or ways of doing something’ (Oxford Advanced Learner’s Dictionary). To understand the notion of innovation better, we look at many synonyms of the word ‘Innovation’, such as change, revolutionize, invent, transformation, alteration, newness, novelty, originality, freshness, modernism, modernization, or uniqueness etc. For a business organization, such as a bank, innovation could mean implementing new ideas, creating dynamic new products and services or improving the existing services/processes. In other words, innovation is ‘looking at things in a unique, different way’. For example, it could be a new idea, new method, new device, new skill, new process etc. Thus, Innovation signifies ‘change’. Innovation is considered to be creating new, more effective processes, products or services that could increase the prospects of a business proposition. Organizations that innovate thus could enjoy increased productivity and performance. Further, innovation could promote growth and success of business in the long run, helping the organization to adapt and grow in the market place.

Crafting innovation into practice can definitely be a challenge to any organization, since it needs a change in the mindset of people. Hence, creating an innovative culture is easier said than done. However, there is no magic formula for creating innovation, or any guarantee of a sustaining competitive advantage as a result of innovation. Generating new ideas and



implementing them quickly as a team will bring the organization together, to transform product and service initiatives into sustained results. If the goal is an 'innovative culture' how should the CEO of an organization or the leaders of a country change the mindset of their people? How should the organization be mobilized as a team to effect the innovations or bring in the new ideas, new products and services to the market quickly? What would bring the organization together to transform the innovations in products and services into sustained results, to enjoy a competitive advantage in the market? What would be the importance of innovation for banks to achieve sustainable competitive advantage in the market? This article will address these questions, providing valuable insights for banks and top management of organizations.

## **What is an 'innovative corporate culture'?**

Why is it important to understand what is an innovative corporate culture? In order to encourage increasing the flow of new ideas required to generate innovation in an organization, there are a number of basic features which can be identified and developed. Developing an internal innovative corporate culture stands out among them all. Firstly, let us look at what is an internal corporate culture or an organizational culture? Organizational culture has been defined by scholars in many ways over decades: Organizational culture is a pattern of basic assumptions that are considered valid and that are taught to new members as the way to perceive, think, and feel in the organization' (Schein, 1985). It is 'the shared beliefs of an organization's members' (Key, 1999). It is a set of shared values, beliefs, and norms that influence the way employees think, feel, and behave towards each other, within and outside the organization. Organizational culture is a cognitive framework that consists of attitudes, values, behavioural norms, and expectations shared by the members of a particular organization. Further, organizational culture is sometimes called as 'corporate culture' and identified as a system of shared beliefs and values that develops within an organization and guides the behaviour of its members (Schein, 1985). Based on these understandings, corporate culture can be considered as the social glue that binds members of the organization together. Further, the corporate culture of an organization is compared to the 'personality' of a human being, as it is unique in nature with regard to the individual, whether it is a human being or an organization. Hence, there is no particular standard definition for corporate culture or organizational culture, but there is a common understanding that, 'it is a set of values, beliefs, and norms or expectations unique to a particular group of people in the organization, which are shared by the members of the organization and be guided by them for their behaviour'.

Based on the above definitions, we could construct our own definition for 'innovative corporate culture'. Hence, it is 'a set of shared values, beliefs, and norms or expectations unique to a particular group of people in the organization, which guide them in their behavior towards generating new ideas or innovation'. However, there is no guarantee that an innovative culture will lead to innovation, but it certainly is a prerequisite for innovation.



## Why is it important to have an innovative corporate culture?

Reading through many business and academic articles on innovation revealed that, the idea of innovation is a vital management concept which had matured over the past several years. Corporate and management leaders such as Clayton Christensen, Michael Porter and others have promoted the topics such as disruptive technology, competitive advantage and competitive strategy, highlighting the importance of generating new ideas and doing things differently, or bringing out 'innovation' as a unique management tool to gain competitive advantage in the market. For example, Porter sees strategy as resting on unique activities: "choosing to perform activities differently or to perform different activities than rivals, leads to sustainable competitive advantage and profitability (Harvard Business Review, November 1996). Christensen (Gartner Group Interview, April 2004) argue that, disruptive innovations need not be a breakthrough from a technological sense, but instead of sustaining the course of improvement that has been established in a market, it disrupts and redefines it by bringing to the market something that is simpler and different. Corporate world, specially the banking and finance industry, is faced with many challenges due to ever increasing intense competition. "Competitive Advantage (CA) is the ability that an organization can have to gain a relatively better market share and then a better profit or rate on investment compared with its competitors" (Opatha, 2009). In other words, CA is a status a firm could achieve when it gains a superior market position relative to its competitors. Once an organization achieves a CA it should be able to sustain it for a long period of time. This means, the organization should be able to enjoy in the market a superior position relative to its competitors or to enjoy a sustainable competitive advantage. Many strategies used by organizations to enjoy a CA in the market are unable to sustain it in the long run because their innovations can be easily copied by its competitors (Kleiman, 2000). In other words, a company could achieve a sustainable competitive advantage only if it is capable of producing goods and services that could not be imitated or copied by its competitors in the long run. Hence, the importance of an innovative culture or a conducive organizational environment for innovation is a prerequisite to produce unique products and services that cannot be copied by its competitors in the long run. Therefore, an innovative corporate culture is a precondition for an organization to achieve sustainable competitive advantage.

Catering to this long-term organizational requirement, innovators attend to their customers with products, services and processes that significantly shape customers' perceptions and needs, creating new and enduring markets. It is evident that innovations require advance creativity, out-of-the box thinking and instinct. Developing innovative products or services require insightfulness, imagination and agility or alertness. Implementing or executing the innovative plans require co-operation across the entire organization. Hence, it is obvious how an innovative organizational culture would facilitate innovation in the organization.



## How to create an innovative corporate culture?

As already discussed, innovative corporate culture is 'a set of shared values, beliefs, and norms or expectations unique to a particular group of people in the organization, which guide them in their behavior towards generating new ideas or innovation'. Innovation requires a clear vision across business and a strong leadership to drive people in the organization towards it. There are many influences that affect the ability of a business or an organization to innovate. Out of them, the internal corporate culture and the external culture in which the organization operates would influence the ability of a business to innovate strongly. Another key influence on innovation is the risk-taking ability of the organization. Innovation is said to flourish in a corporate culture that is bold enough to take risks. Innovation process in an organization is usually a top-down process or is led from the top management of the company to the lower ranks of the hierarchy. To create an innovative corporate culture, the people in the organization, from top-to bottom, should be creative, flexible and open to new ideas. Top managers need to adopt a positive attitude and focus on the potential for enhancing competitiveness through innovation. They should listen to new ideas of the employees and find ways of doing business in different ways, even if this means it has to change the current business model.

The allocation of resources for innovation is another vital task for any business organization. Proper allocation of resources is dependent on top management understanding the benefits of new ideas or innovations. However, it is unfortunate that, business expenditure on innovation is often recognized as expenditure, rather than as an investment. Generally, improvements to current operational processes may not be seen as innovation at all. A free flow of information and ideas up, down and across the business inspires the development of new ways of performing tasks and can also lead to the development of new products. Processes which allow employees to suggest improvements and ideas circulate these ideas and be rewarded for their entrepreneurial behaviour can be implemented.

Another vital component of an innovative corporate culture is the interest the company is showing in their Research and Development (R & D) activities. Organization that promotes the value of experimenting or engaged in R & D, is adaptable and gain rewards in the long run, and gain sustainable competitive advantage. R & D is used as a management tool to find new ideas. Regular technology upgrades in organizations is another vital component in creating an innovative corporate culture. Upgraded technology is much influential in creating innovations and bringing them to the market. It enables consumers and businesses to do things not previously conceivable or affordable. It also can provide intelligent, inventive and complex automation to mitigate high labour costs or gives a cost benefit advantage in the long run, contributing to sustainable competitive advantage.

Further, an innovative corporate culture would be nurtured by a continuous learning culture in the organization. To build knowledge on innovation, employees should attend regular workshops, seminars and events about innovation. A culture of continuous learning can be encouraged by supporting training programs and on-the-job training, to enhance the innovative



skills of employees. It is also important to explore networking and mentoring opportunities in organizations.

## **Benefits of innovative corporate culture**

Everyone in the organization could contribute in the process to innovate. Incorporating innovation in the business could help find new ways to save time and money. Innovative culture drives the organization towards competitive advantage and helps to grow and adapt the business in the marketplace, leading to sustainable competitive advantage in the long run. Innovation means implementing new ideas, creating dynamic products/services, or improving the existing services. Innovation promotes business growth, and helps to adapt in the marketplace. Hence, innovation could change the organization's business model, adapting to changes in the business environment to produce better, quality, innovative output. Successful innovation should be an in-built part of the business strategy, where it enables to create a culture of innovation, and leads the way in innovative thinking and creative problem solving in the organization. Therefore, it is obvious, organizations that innovate or willing to 'change' create more efficient and effective work processes and have better productivity and performance, leading to sustainable competitive advantage.

## **Innovative Culture and Human Resource Management (HRM)**

What is HRM? "HRM is the efficient and effective utilization of human resources (HR) to achieve goals of an organization" (Opatha, 2009). What is the link between HRM and innovation? Innovative organizations continuously try to manage their HR effectively to create and market new products and services. According to researchers, the human capital (resource) and the rate of innovation are interdependent and complementary to each other. Further, organizational innovation is concerned with deliberately designing and implementing incremental or radical changes to an organization's products/services or processes. Innovative capacity or capacity to adopt innovative practices in an organization is determined by the HRM practices of the organization. It has been identified that, innovation initiatives heavily depend on employees' human capital and behavior at work. Researchers also state that these are the key inputs in the value creation process of the organizations. It is crucial that, when organizations practice innovation, they need to have creative and innovative people, who are flexible, risk-taking, and adapt to tolerance of uncertainty and ambiguity. Further, it is important for an organization to adopt supportive HRM practices that can motivate and encourage employees to be creative and innovative. HR has the potential to inspire innovation and creativity in the organizations. Researchers have identified that, knowledge, skills and behaviours of employees can be the sources of innovation performance of an organization. Further, they also pointed out that the innovation capacity of an organization resides in its employees' competencies and motivation. Employee knowledge is the prime source of innovation or the motivation of innovation.



What is the role of HRM in organizations towards innovation? There is a positive relationship between HRM practices and innovation in both the processes and the products. According to a recent research in Sri Lanka on HRM and innovation (Arulrajah, 2014), there is a general identification about the importance of HRM as a determinant of innovation. HR and HRM practices of an organization have power to determine the innovation inputs, innovation occurrence and sustainable innovation performance of the organization. The reason behind this phenomenon is the innovative capacity of an organization resides in the intelligence, imagination and creativity of its HR in terms of innovation inputs. Similarly, for the innovation occurrence and retaining innovation potential in a sustainable manner, organizations require innovation focused HRM practices. Researcher suggests that HRM practices can contribute substantially to organizational innovation, mainly in three steps. Firstly, organizational innovation requires certain forms of inputs, such as creative and committed workforce and knowledge workers, and development of knowledge and skills. Though an organization satisfies these required inputs for innovation, it does not mean that innovation will take place voluntarily within the organization. Secondly, to materialize the real performance of innovation, some additional mechanisms are needed to trigger innovation in the organizations, such as culture and climate for innovation, motivation, innovation oriented behaviours etc. Finally, an organization needs to sustain its innovation potential for a long period of time in order to achieve sustainable competitive advantage (e.g. retaining creative workforce and experts). These three aspects can be considered as the key roles of HRM practices in organizational innovation. Thus, innovative HRM practices are important to nurture organizational innovation. Integrating organizational innovation processes with HRM functions and respective practices have significant and positive effects (directly and indirectly) on innovation performance of the organizations. In this process, HRM practices have to play three key roles. In this context, HRM practices should provide: firstly, required inputs for the organizational innovations (input role); secondly, required mechanism to bring innovations in the organizations (materializing role); and thirdly, required mechanism to retain the innovation potential of the organizations (retaining role).

## **Human Resource innovations for service firms: adding value in banking**

Consumers in service industries are familiar with the service providers' competing on price. Hence, now consumers demand increasingly higher levels of service quality. For service companies, staying competitive in the new market environment means not only offering products at reasonable prices, but also modifying these products to meet individual customers' needs. Many companies have moved quickly to take advantage of this market shift (e.g. banks, credit card companies, mobile phone companies). These companies have redesigned their work practices to leverage information among different products and provide customers with quick, customized, price-competitive service offers. The companies have trained and empowered employees directly involved in service delivery to undertake a broad range of tasks. They have given priority to minimizing labour turnover on the theory that employees with long tenure better understand both a firm's customers and its internal work processes and so are better able to meet individual client's needs.



Banks and other service providers, however, can overcome these constraints by reforming their human resource policies and practices. By working with educational providers to smooth the school-to-work transition, firms will realize higher skill levels in the labour force at a lower cost. And a new employment contract that features stronger career paths in all positions, modularized training programs, and more internal recruiting will encourage broader skill formation and lower employee turnover. Together, these innovative human resource practices can make it much easier for services to meet the emerging quality demands of their customers.

## Conclusion

Shaping innovation into practice is definitely a challenge to any business organization, since it needs a change in the mindset of people. Hence, creating an innovative culture is easier said than done. However, there is no magic formula for creating innovation, or any guarantee of a sustaining competitive advantage as a result of innovation. Generating new ideas and implementing them quickly as a team, will bring the organization together, to transform product and service initiatives into sustained results. If the goal is an 'innovative culture', the CEO of the organization has a key role to play to change the mindset of their people. Innovation requires a clear vision across business and a strong leadership to drive people in the organization towards it. Further, the organization should be mobilized as a team to effect the innovations, or bring in new ideas, new products and services, processes as a team to the market quickly.

This article discussed three major aspects that can be considered as the major roles of HRM practices in organizational innovation. Firstly, input role: required inputs for the organizational innovations; secondly, materializing role: required mechanism to bring innovations in the organizations; and thirdly, retaining role: required mechanism to retain the innovation potential of the organizations. Incorporating innovation in the business culture could help to find new ways to save time and money. Innovative culture drives the organization towards competitive advantage and helps to grow and adapt the business in the marketplace, leading to sustainable competitive advantage in the long run. Hence, an innovative corporate culture is a prerequisite for an organization to achieve sustainable competitive advantage. This article provides valuable insights on organizational innovation and sustainable competitive advantage, for banks and top management of organizations.

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