LITERATURE REVIEW
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Innovation is one of the most powerful forces of change - its impact is felt by nations, societies, organizations and individuals all around the world. Innovation is one of the most important drivers of economic growth and development. It enables organizations to envision and design unique and creative solutions, which cater to the needs of customers in a superior way. Innovation enables organizations to gain an edge over competition and attain leadership positions in their industries. Some organizations seem to be better at managing innovation than their counterparts.

Innovation is also an important research theme for academicians. They have been exploring, defining, explaining and measuring innovation for more than 75 years. A popular approach that has accompanied these studies is the classification of innovation. Innovation has been classified in a number of ways by academicians, businessmen and economists. The most important among them are outlined below.

A number of researchers have evolved the concept of innovation by combining technology and market perspectives in developing theoretical models of innovation. Freeman et al. (1982), Freeman and Soete (1987) categorize innovation into the following categories: (a) Incremental innovations - these innovations occur on a continuous and regular basis in almost every sphere of business. The differentiating factors being the variation in the rate of innovation between different industries. The pace of incremental innovations could also vary based on time periods. They are often the outcome of improvements suggested by people directly involved in various manufacturing processes. Sometimes incremental innovations may also be based on suggestions by users. (b) Radical innovations - these are often the result of research and development activities in organizations, universities and government research centers. They occur less frequently
when compared to incremental innovations. (c) Changes of techno-economic paradigm (technological revolutions) - These are important and pervasive changes in technology, which often lead to the creation of new markets. (d) Innovation in the market niche – exploring new market opportunities using existing technology. (e) Regular innovation - it pertains to changes in products and services based on tried and tested processes and procedures. These innovations usually cater to existing markets and customers.

Abernathy and Clark’s model (1985) is similar to Freeman’s model. It classifies innovations into four categories: (a) Regular innovation – is based on a manufacturer’s technical expertise and knowledge of customers tastes and preferences; (b) Niche innovation – this category helps to preserve an organization’s technical capabilities but the market knowledge often becomes redundant; (c) Revolutionary innovation - it is the opposite of niche innovation. It turns technological capabilities obsolete but preserves market knowledge; (d) Architectural innovation – these innovations make both technological and market capabilities become redundant.

Tushman et al.’s model (1997), also classifies innovation based on impact on market knowledge and technology. In Tushman’s model, four kinds of innovation were identified: (a) Architectural innovation—new markets are created with an incremental improvement in technology; (b) Incremental products, service or process innovation—incremental improvement in products and services which target existing markets; (c) Major product or service innovation—refers to a radical change in technology which often leads to the creation of new markets; (d) Major process innovation—refers to major changes in technologies which are often targeted to existing markets. The authors also suggest a fifth kind of innovation - generational innovation, which represents an
intermediate phase, where both market and technology are going through continuous changes.

Chandy and Tellis’ model (1998) also suggest that two common dimensions underlie most definitions of innovations: technology and markets. The first dimension determines the extent to which the technology involved in a product is new or different from earlier technologies. The second dimension determines the extent to which the new product fulfills key customer needs better than existing ones. Combining these two dimensions leads to four types of product innovations: (a) an incremental innovation occurs if the newness of technology is low and the customer need fulfillment is low; (b) a market breakthrough occurs when there is low newness of technology and high customer fulfillment; (c) a technological breakthrough occurs when there is a high newness of technology and low customer need fulfillment; and (d) radical innovation occurs when there is a combination of high newness of technology and high customer need fulfillment.

While researchers like Freeman, Abernathy, Clark and Tushman have classified innovation based on technology and market perspectives, others like Ettlie, Bridges, O’Keefe, and Urabe have classified innovations based on their impact on the markets. A common thread among these researchers is the distinction between radical and incremental innovations. Radical innovations usually create a high degree of uncertainty in organizations and industry. They may also render investments in technical skills, knowledge, designs, production techniques, plants and equipment obsolete. The changes are not necessarily limited to the supply side. Radical innovations could come from changes on the demand side or in the organizational structure.
Incremental innovations are often considered to be minor changes in products and processes. They often do not have a sufficient degree of novelty. Novelty refers to the aesthetic or other subjective qualities of the product. Radical innovations often result in revolutionary changes in technology. They represent clear departures from existing practices (Ettlie, 1983; Ettlie, Bridges, & O’Keefe, 1984).

According to Urabe, (1988) “innovation includes both major and minor changes. Extremely major change is called a radical innovation, although it is interpreted as radical in a technological sense. It is usually the case that in the early stages of a new industry radical product innovation is the prevalent mode of innovation, but it has little if any economic impact, because product design is still in flux and the market is uncertain”.

Dosi (1988) was of the opinion that an incremental innovation is more likely to be a market pull innovation, whereas a radical innovation is generally originated by scientists and often incorporates new technologies or new combinations of existing technologies.

Utterback (1996) referred to radical innovation as “change that sweeps away much of a firm’s existing investment in technical skills and knowledge, designs, production technique, plant and equipment”.

Clayton M. Christensen (1997) distinguished two types of innovations: Sustaining innovations and disruptive innovations. Sustaining innovations are those that improve product performance. These are innovations that most large companies are familiar with; innovations that involve improving a product that has an established role in the market. Most large companies are adept at turning sustaining technology challenges into achievements. Christensen claims that large companies have problems dealing with disruptive innovations. Disruptive innovations are "innovations that result in worse product performance, at least in the near term. They are generally "cheaper, simpler,
smaller, and, frequently, more convenient to use”. Generally, large companies choose to overlook disruptive innovations until they become more attractive profit-wise. Disruptive innovations, however, eventually surpass sustaining technologies in satisfying market demand with lower costs. When this happens, large companies who did not invest in the disruptive technologies sooner are left behind.

Pedersen and Dalum (2004), support the view that radical innovation is a major change that represents a new technological paradigm. It implies that the codes developed to communicate changing technology will become inadequate.

Another group of researchers classify innovation based on life cycles of products. Everett Rogers (1983) proposed the diffusion of innovations theory. He showed that adopters of any new innovation or idea could be categorized as innovators, early adopters, early majority, late majority and laggards. Each adopter's willingness and ability to adopt an innovation would depend on their awareness, interest, evaluation, trial, and adoption. People could fall into different categories for different innovations. When graphed, the rate of adoption formed an "S shaped curve." The graph essentially shows a cumulative percentage of adopters over time - slow at the start, more rapid as adoption increases, the leveling off until only a small percentage of laggards have not adopted.

Geoffrey A. Moore (1991, 1995) used the diffusion of innovations theory from Everett Rogers, but argued that there is a chasm between the early adopters of the product - the technology enthusiasts and visionaries and the early majority - the pragmatists. Moore argued that this was because visionaries and pragmatists have very different expectations. To bridge the gap between visionaries and pragmatists, Moore suggests that an organization should focus on a "beachhead" or a total solution for a problem built around the needs of a niche market. Moore calls this total solution a "whole product". He defines
the whole product as "the minimum set of products and services necessary to ensure that
the target customer will achieve his or her compelling reason to buy." The whole product
created for a niche market represents the entry into the mainstream market, an area called
the Bowling Alley. The Bowling Alley phase represents the “early majority”. As more
niche markets are successfully penetrated, the solution is perceived to be less of a niche
product and more of an all-purpose solution. This creates momentum around the
technology, and leads to the hyper growth phase of the Tornado. The Tornado is a period
of hyper growth when the pragmatic buyers buy in large numbers often leading to a
technology becoming the industry standard. The next phase is “Main Street”, it represents
a time when the purchasing frenzy has subsided and supply and demand reaches an
equilibrium. Moore describes the entrance into Main Street as a "calamitous" experience.
Revenue shortfall, loss of talented employees, and shareholder lawsuits due to a
floundering stock price are not uncommon. However, if a corporation comes to terms
with the fact that Main Street is an inevitable part of the life cycle, it can be quite
profitable. To ensure success, corporate strategy must shift once again toward a
combination of customer intimacy and operational excellence.

Gartner proposed “The Hype Curve” in 1995. Since 1995, “Hype Cycles” have been used
to characterize the over-enthusiasm or "hype” and subsequent disappointment that
typically happens with the introduction of new technologies. “The Hype Curve” is a
graphic representation of the maturity, adoption and widespread usage of specific
technologies. Gartner distinguishes the following phases on “The Hype Curve”: (a)
Technology trigger - the first phase of a Hype Curve is the "technology trigger" or
breakthrough, product launch or other event that generates significant press and interest.
(b) Peak of inflated expectations - in the next phase, a frenzy of publicity typically
generates over-enthusiasm and unrealistic expectations. There may be some successful
applications of a technology, but there are typically more failures. (c) Trough of disillusionment - technologies enter the "trough of disillusionment" because they fail to meet expectations and quickly become unfashionable. Consequently, the press usually abandons the topic and the technology. (d) Slope of enlightenment - although the press may have stopped covering the technology, some businesses continue through the "slope of enlightenment" and experiment to understand the benefits and practical application of the technology. (e) Plateau of productivity: a technology reaches the "plateau of productivity" as the benefits of it become widely demonstrated and accepted. The technology becomes increasingly stable and evolves in second and third generations. The final height of the plateau varies according to whether the technology is broadly applicable or benefits only a niche market.

Guus Berkhout (2000) proposed "The Cyclic Innovation Model". This model proposes that successful market introduction of products and services is not a linear process. It rather involves many cyclic interactions between different actors from various disciplines. The Cyclic Innovation Model seeks to bridge the differences between the "technology push model" and the "market pull model" by creating a cyclic model. The model explains that a holistic multi-disciplinary view is required to develop an effective innovation system that enables an organization to gain an edge over its competitors.

Another line of thought explored by researchers is to study innovation based on its source. In recent years several organizations have explored the possibilities of linking up with individuals and research centers outside the organization, universities, governments and nonprofit organizations to enhance their innovative capabilities. Some researchers have made an attempt to study the importance of these collaborations and the scenarios in which they are effective.
One of the pioneers of this concept is Henry Chesbrough. According to him, “open innovation is a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to advance their technology”. “The user-centered innovation process is in sharp contrast to the traditional model, in which products and services are developed by manufacturers in a closed way, the manufacturers using patents, copyrights, and other protections to prevent imitators from free riding on their innovation investments. In this traditional model, a user’s only role is to have needs, which manufacturers then identify and fill by designing and producing new products. The manufacturer-centric model does fit some fields and conditions. However, a growing body of empirical work shows that users are the first to develop many and perhaps most new industrial and consumer products. Further, the contribution of users is growing steadily larger as a result of continuing advances in computer and communications.” Hippel (2005)


In this emerging scenario, the boundaries between a firm and its environment have become more permeable; innovations can easily transfer inward and outward.

The open innovation paradigm is much more than just collaborating with external sources of innovation such as customers, competitors, government agencies and academic institutions. It also encompasses a change in management’s approach and outlook towards innovation. “Open innovation serves as a dynamic knowledge exchange, encouraging outside ideas to cross company borders, and empowering employees to work extensively
in outside networks and collaborations” Gabor (2009). An important feature of the open innovation paradigm is the need for firms to access external knowledge and not to rely exclusively on knowledge developed in-house. This is often referred to as Joy’s law: “No matter who you are, most of the smartest people work for someone else” Lakhani and Panetta (2007). “Open innovation is not some extraordinary ideal or concept. It is happening right now because today’s information-empowered flat world makes for a ripe landscape” Stoffels (2009).

Other researchers like Gassmann, Henkel, Hippel, Vanhaverbeke, Gallagher, Cooke, Crough and others support the view that organizations need to adapt to the changing scenarios and adopt the open innovation model proactively. They are of the view that “Open Innovation is the way to go, since product life cycles are getting shorter and knowledge becomes easier accessible and shareable. It is basically impossible to ‘own’ all this knowledge. So, in our opinion, collaboration is crucial. And that is something we’re doing only sparsely.”

Some of the various important types of open innovation are:

Innovation intermediaries – they are also described as 'bridgers', 'change agents', 'brokers'. Intermediaries play a wide range of roles, facilitating the bringing together of various people at different parts of innovation processes such as ideation, invention, standards making, managing IPR, commercialization, and creating new market segments among others. These intermediaries often specialize in some services. Basic functions include providing a common platform for innovation seekers and potential solution providers to interact with each other. These intermediaries facilitate the exchange of ideas. They also help in other important ways like creating opportunities for
experimentation, help in setting standards and common goals, and in formation of new partnerships.

Co-creation - Co-creation is at the heart of the open innovation model, where users have are empowered to participate in the entire innovation process.

Peer production - also known as mass collaboration is a way of producing goods and services that relies on self-organizing communities of individuals who come together to produce a shared outcome. The content is produced by the general public rather than by paid professionals and experts in the field. In these communities, the efforts of a large number of people are coordinated to create meaningful projects. The internet, has provided the peer production process with new collaborative possibilities and has become an important part of the open innovation model.

Crowdsourcing – it is the process of obtaining needed services, ideas, or content by soliciting contributions from a large group of people, and especially from an online community, rather than from traditional employees or suppliers.

Crowdfunding – it is the practice of funding a project or venture by raising monetary contributions from a large number of people, predominantly through online channels.

**Major classifications of innovations**

- eight categories – reformulated, new parts, remarchandising, new improvements, new products, new users, new market, new customers (Johnson and Jones, 1957);
- five categories – systematic, major, minor, incremental, unrecorded (Freeman, 1994);
- four categories – incremental, modular, architectural, radical (Henderson and Clark, 1990); niche creation, architectural, regular, revolutionary (Abernathy and
Clark, 1985); incremental, evolutionary market, evolutionary technical, radical (Moriarty and Kosnik, 1990); incremental, market breakthrough, technological breakthrough, radical (Chandy and Tellis, 2000); incremental, architectural, fusion, breakthrough (Tidd, 1995; Tidd et al. 2001);

- three categories - low, moderate, high innovativeness (Kleinschmidt and Cooper, 1991); incremental, new generation, radically new (Wheelwright and Clark, 1992);
- two categories – discontinuous, continuous (Anderson and Tushman, 1990; Robertson, 1967); instrumental, ultimate (Grossman, 1970); variations, reorientation (Norman, 1971); true, adoption (Maidique and Zirger, 1984); original, reformulated (Yoon and Lilien, 1985); innovations, reinnovations (Rothwell and Gardiner, 1988); radical, routine (Meyers and Tucker, 1989); evolutionary, revolutionary (Utterback, 1996); sustaining, disruptive (Christensen, 1997); really new, incremental (Schmidt and Calantone, 1998; Song and Montoya-Weisse, 1998); breakthrough, incremental (Rice et al., 1998); radical, incremental (Balachandra and Friar, 1997; Freeman, 1994).

**Innovation model adopted for this study**

The innovation model adopted for this study is based on the classification of innovations proposed by Schumpeter, one of the earliest proponents of the concept of innovation. Schumpeter (1939) identified the following types of innovations: (a) Product innovation - the introduction of a new good – with which consumers are not yet familiar – or of a new quality of a good. (b) Process innovation - the introduction of a new method of production, not yet tested by experience in the branch of manufacture concerned. (c) Business model innovation - the opening of a new market, into which the particular
branch of manufacture of the company has not previously entered, whether or not this market existed before. (d) Source of supply innovation - the conquest of a new source of supply of raw materials or semi manufactured goods, irrespective of whether this source already exists or it has first to be created. (e) Mergers & divestments – activities undertaken by an organization like the creation of a monopoly position or the breaking up of a monopoly position.

The organizations selected for the study are based on the annual surveys conducted by Bloomberg Businessweek to identify the 50 most innovative companies of the world. Businessweek has adopted a similar approach to classify the organizations. They have classified the organizations into the following categories: product innovation, process innovation and business model innovation.

While many organizations seek to gain a competitive edge by focusing on innovation, successful ones focus on defining the trends for the future. One of the ways they do this is by creating a culture where innovation thrives. Since the culture of an organization defines what it is and what it does, this study sought to explore the dynamics and relationships between the culture of innovative organizations and their innovative capabilities.

Initially in the 1950s and especially the 1960s, the study of culture focused exclusively on understanding consumer behavior which was related segmenting markets, some comparisons were also made to study cross cultural comparisons of international markets to understand consumer behavior (Engel, Kollat, and Blackwell 1968; Zaltman 1965).

In 1985 Ouchi and Wilkins observed that organization culture was largely measured and applied by sociologists up till mid-1970s on traditional models which did not explain
organizational culture in a focused manner. It did not show the relationship between outcome and organization culture.

Edward T. Hall (1976) was among the first researchers to have explored different facets of organizational cultures and described their influence on behavior of people in organizations. Edward T. Hall (1976) described culture based on the different ways in which people communicate with each other. He divided culture into two broad categories: high-context cultures and low-context cultures. In high-context cultures most of the information was implicit whereas in low-context cultures nearly everything was explicit.

Others like Hofstede (1980) studied the differences in culture of people working in the same organization in different nations. He identified the following six dimensions based on which national cultures differed: ‘power distance’—described about hierarchies and power distribution; ‘uncertainty avoidance’ – people’s comfort levels with uncertainty; ‘individualism vs. collectivism’ – individuals preferring to be self-reliant versus preferring to belong to a group; ‘masculinity vs. femininity’ – reflects toughness vs. tenderness; ‘long-term vs. short-term orientation’ – people’s perceptions on delayed vs. immediate gratification; and ‘indulgence vs. restraint’ – ‘indulgence’ refers to societies that are relatively tolerant to gratification of human desires whereas ‘restraint’ describes societies that regulate gratification of needs by strict social norms.

Deal and Kennedy (1982) identified 4 types of organizational culture based on people’s outlook towards risks and rewards: work-hard play-hard culture; tough guy macho culture; process culture and bet-the-company culture. Their description of culture was ‘the way things get done around here’.

Denison (1990) was of the view that culture in organizations could be explained through four dimensions – ‘mission’, ‘adaptability’, ‘involvement’ and ‘consistency’.
O’Reilly, Chatman and Caldwell (1991) believed that organization cultures could be differentiated based on values that are practiced in these organizations. The ‘Organizational Profile Model’ (OCP) proposed by them, classified cultures into seven categories: willingness to take risks, experiment and encourage innovation; paying attention to detail; outcome orientation – processes vs. end results; people orientation – respect for people; individual orientation vs. team orientation; aggressiveness in taking action, dealing with conflicts; and openness to change. The model measures associations between organization’s culture and individual’s personalities in the organization.

Schein (1985: 1992) described culture as the shared assumptions learnt by a group of people as they cope with the challenges of external changes and adapt to them in a seamless manner. These assumptions could be shared with the future generations, helping them to be better prepared for similar challenges in the future. He believed that an organization’s culture evolved over time based on people’s abilities to strike a balance between the twin challenges of internal integration and external adaptation. He considered culture as the most challenging attribute to alter and change in an organization. It outlasts the other physical aspects of an organization – its products, services, and even the founders of the organization. He identified three levels of organizational culture: the first level relates to the attributes of an organization that are easily perceived, seen, and experienced by people outside the organization. They are referred to as ‘artifacts’. At the next level are the ‘core values and beliefs of the organization’ and at the third level deals are the organization’s ‘tacit’ assumptions.

Kotter and Heskett’s (1992) study revealed that the performance of organizations having adaptive was much better when compared to organizations having non-adaptive cultures. They opined that adaptive cultures are characterized by managers who pay close attention
to customers, take calculated risks and initiate change at the appropriate time. Non-adaptive cultures on the other hand can hinder and adversely affect an organization’s ability to respond in an agile manner to the changing market scenarios.

Charles Handy (1976) identified four types of culture: ‘power culture’– power is generally concentrated held by a small but powerful group of people or by one person; ‘role culture’–where authorities are delegated based on highly defined organizational structures; ‘task culture’ – in which teams are formed to accomplish specific tasks; and ‘person culture’- where individuals perceive themselves to be superior to the organization.

Culture is the shared values, attitudes, norms, and behaviors of people in an organization. Culture defines the way an organization functions; strong cultures motivate and energize employees by appealing to their higher ideals. They help the leaders in rallying the people around a set of unified goals.

The Organizational Culture Assessment Instrument (OCAI) was designed by Cameron and Quinn in 1999.

Another popular assessment tool to study organization culture is the Organizational Culture Index (OCI) designed by Robert Cooke and Clayton Lafferty. It classifies behavioral norms of people working in organizations into 12 categories. These 12 categories are grouped in three broad categories: Constructive, Passive/Defensive, and Aggressive/Defensive.

Many leaders of organizations are aware of the importance of culture in shaping the future of their organization but generally find it difficult to nurture a strong culture. This
is generally attributed to the lack of clarity and consistency between ‘culture’ and ‘climate’.

**Distinguishing between Culture and Climate**

During the 1980s and 90s a great deal of research was undertaken to study the distinctive attributes of ‘culture’ and ‘climate’. A growing interest in ‘culture’ among researchers, academicians and the business community in the 1980s led to its emergence as a separate field of study. Many early research studies focused on the unique characteristics that distinguished culture from organizational climate. Schwartz and Davis (1981) observed that “whatever culture is, it is not climate”.

The distinction, was very basic in nature, but it formed the base for discussions and debates during the 1980s.

Initially, research on ‘climate’ was largely based on ideas in psychology proposed by Lewin’s ‘Gestalt’, whereas research in culture was based on anthropology (Schneider, 2000). A majority of climate researchers agree on some common aspects of climate. They describe climate as “the relatively enduring organizational environment that a) is experienced by the occupants, b) influences their behavior and c) can be described in terms of the values of a particular set of characteristics or attributes of the environment” (Tagiuri and Litwin, 1968, p. 25). However, some researchers argued that this definition of climate had close resemblance to definitions of organizational culture. Many researchers (Schein, 1984; Reichers and Schneider, 1990; Hatch, 1993) supported the viewpoint that climate is an external and superficial manifestation of corporate culture.

Perhaps, the growing interest in corporate culture in the 1980s, led to researchers exploring and debating on fundamental issues such as "Where do organizational climates
come from?” Schneider and Reichers (1983). The early researchers explored the concept of ‘corporate climate’ through the – attraction – selection – retention process. Other authors (Ashforth. 1985; Poole, 1985; Poole and McPhee, 1983) studied organizational climate through the social construction model. They believed that ‘climate’ was an outcome of the more basic culture and value systems of organizations.

During the 1990s the perception of culture as an organizational quality distinct from organizational climate gained prominence. Gradually researchers began getting deeper insights into the ‘culture’ construct and they began to develop new methods to assess it. Meyerson (1991) described culture as “an ontological rebellion against the dominant functionalist or ‘scientific’ paradigm (climate)”.

Researchers studying culture and climate attempted to address these constructs by trying to gain deeper insights into the relationship between individuals and their surroundings. However, the major area of contention was in trying to determine which produced the effects on the other. Although many academicians and researchers agreed that climate was an outcome of culture, the point of contention was whether they were different and distinct concepts or two facets of the same concept. Many researchers, in the attempt to gain more clarity into the distinctions between culture and climate began to use quantitative and later mixed methods to study them. However, after several studies on these two phenomena during the 1990s, the differences between them became even more indistinguishable. It became “increasingly apparent to many organizational researchers that the two concepts differ more in interpretation rather than within the phenomena themselves” (Denison 1996). He explored the areas of ambiguity between culture and climate. He was of the view that corporate culture and organization climate were very different and distinct perspectives on the environment in an organization; however there
continued to be debates, discussions and research on whether culture and climate were distinctly different organizational attributes or whether they were similar phenomena that were examined and studied from different and divergent perspectives. After nearly thirty years of rigorous research, many academicians now support the view that, the differences between the culture of organizations and corporate climate are not as distinctly different as they were originally believed.

This brief overview helps to understand the different perspectives that existed between culture and climate for the past thirty years. It suggests that perhaps one of the most widely accepted differentiating aspect between corporate culture and organization climate is that while culture is related to the foundation of organizations, and is built on the values, beliefs, attitudes, behaviors and assumptions of the founders of the organization. It is developed and nurtured through socialization among in the workplace. Climate, in contrast, is often considered as relatively temporary phenomenon. It relates to the areas and aspects of an organizations’ environment that can be consciously perceived by the members of an organization.

**Organization Culture Assessment Methods - Qualitative Approach**

The vast literature available on organizational culture predominantly deals with intangible phenomena. Therefore early researchers of culture used qualitative methods to study it. The researchers used participant observation approach to study corporate cultures, usually they focused on a single institution and conducted an in depth analysis of it (Druckman et.al, 1997).

During the early stages of explorative research on corporate culture as a phenomena distinct from climate, qualitative methods were widely used to study the differentiation between the two. Opponents of the qualitative approach, were of the opinion that a
comparison between cultures of organizations was not possible based solely on qualitative tools.

**Quantitative Tools**

The drawbacks of qualitative methods led to researchers exploring and developing quantitative tools and techniques to gather more meaningful insights in the culture of organizations. Rousseau (1990) argued that cultural assessments of organizations could be done in a more rigorous manner by using quantitative tools. However, Cameron and Quinn (1999) argued that when using quantitative instruments, it is crucial that they are validated to ensure the reliability of the study. The drawbacks of using qualitative and quantitative methods independently led to the development of mixed methods approach to study the culture of organizations.

**Mixed Methods Approach**

Siehl and Martin made one of the first attempts to bridge the gap between qualitative and quantitative methods in 1983. They adopted the mixed methods approach to study culture. Since then, this approach began gradually gaining acceptance among other researchers. It has now become the most commonly used method for assessing culture in organizations. Nearly all current studies on culture use a combination of qualitative and quantitative tools to study culture since the mixed methods approach enables a researcher to offer the best explanation of error variance in the study. It also enables the researcher to examine culture in greater depth (Alvesson and Berg, 1992). A great deal of research supports the use of mixed methods approach (Siehl and Martin, 1983; Siehl and Martin, 1990; Rousseau, 1990; Hofstede, Neuijen, Ohayv, and Sanders, 1990; Alvesson and Berg, 1992;

**Relationship between Organization Culture and Performance of Organizations**

Organizations with strong culture are said to generate an almost tangible social force field of energy that motivates their employees to achieve superior results. (Mitroff and Kilmann, 1984; Pascale, 1985)

Barney’s (1986) research revealed that an organization’s culture could become a dependable source for the company to gain a competitive edge over its competitors if it the culture is difficult to imitate. Cameron and Quinn (1999) studied the relationship between corporate culture and success of the organization. They developed the ‘Organizational Culture Assessment Instrument’ (OCAI). It described four types of organization culture: ‘clan culture’– described a friendly workplace in which leaders consider the organization to be a single large family; ‘adhocracy culture’ – a vibrant workplace where the top management encourage innovation; ‘market culture’ – a competitive workplace where leaders are hard task masters; and ‘hierarchy culture’ – a highly organized work environment, in which leaders play the role of coordinators.

Denison, Haaland, and Goelzer’s study (2004) revealed that corporate culture had a significant impact on the performance of an organization, however all aspects of culture do not contribute in the same manner. The impact of the various attributes of culture differ based on geographical locations, suggesting that corporate cultures could be influenced by the culture of nations.
Relationship between Organization Culture and Innovation Capabilities of Organizations

Muffato, (1998) believed that firms should focus on nurturing an organizational culture that facilitates innovation on a consistent basis, since culture is a major determining factor of an organization’s capacity to innovate.

Martins and Terblanche (2003) opined that some organizations are able to integrate innovation into their processes and routines in the following ways; firstly through an organization’s core values and secondly through individuals’ learning about organizational norms and practices. Ahmed (1998) and Poskiene (2006) supported a similar point of view and stated that culture strongly influences the innovative capabilities of an organization.

Lawson and Samson’s study (2001) revealed that seven elements: culture and climate; organizational structure and systems; vision and strategy; organizational intelligence; harnessing the competence base; creativity and idea management; and the management of technology influence the innovation capabilities of organizations.

Thompson (1996) and Ekval (1996) explored culture from the perspective of climate and its impact on innovation. Thompson’s study (1996) revealed that organizations that focused on a set of practices that had a strong influence on climate performed significantly better than those organizations that did not adopt these practices. They identified the following practices: customer focus; effective and transparent communication channels; encouraging and empowering employees; emphasis on nurturing creativity and innovation; recognizing and rewarding employees based on
performance; encouragement of teamwork; stakeholders’ involvement and adopting environment friendly processes and procedures. Ekval (1996) explored the relationship between organization climate, creativity, innovation and profits.

Hunter et al. (2007) research based on meta-analysis revealed that the following climate dimensions were important in predicting the innovation capabilities of organizations: participation - participation in idea generation by employees is encouraged and supported by superiors; positive interpersonal exchange – promoting unity among the employees of the organization; intellectual stimulation – encouraging debate and discussion of ideas; autonomy - employees have freedom in performing their jobs; mission clarity - awareness of goals of the organization; and product emphasis - commitment to quality and originality of ideas.

Research studies have revealed other important climate dimensions that promote innovation. West, (1996) studied reflexivity as a climate dimension. It involved adapting goals, strategies and working methods of an organization to the outer environment. Miles, (2005) demonstrated that a climate characterized by laying emphasis on originality of ideas and a commitment to quality often leads to innovation since organizations focusing in these areas are better equipped to introduce superior new products and services.

Kanter, 1983; Amabile et al., (1996); Patterson et al., (2005) argued that organizational climate was a key factor for explaining the innovation capacity of a firm.

Several researchers (Amabile, 1988; Isaksen, 1987; Kanter, 1988) support the view that a climate for innovation acts as a motivating factor for employees and helps to channelize their energies toward introducing innovative products and services. An organization with a strong climate for innovation is better equipped to handle a crisis since the employees can adapt to the challenges and come up with innovative solutions.
In contrast, an organization with a work environment that does not encourage creativity and innovation finds it more difficult to handle a crisis, since the culture in these organizations is not oriented to enabling employees to focus their attention on suggesting and implementing innovative ideas. Therefore, an organization climate that nurtures and supports innovation helps to channelize the organization’s resources to introducing innovative products and services.

Studies by Axtell et al. (2000); Suliman, (2001); Solomon, Winslow, and Tarabishy (2004); Montes, Moreno, and Fernandez, (2004); Axtell, Holman, and Wall (2006) revealed a positive influence of organizational climate on innovation.

Some researchers (Amabile, Conti, Coon, Lazenby, and Herron, 1996; Burningham and West, 1995; Nijhof, Krabbendam, and Looise, 2002; West and Anderson, 1996) studied the effects of organization climate on innovative capabilities of teams within the organizations. Others like Hosseini, Azar, and Rostamy, (2003) studied the influence of organization climate on technological innovation capabilities of 90 Iranian organizations.

Studies by Ekval in (1983; 1987; 1997; 2002) found that creative climate significantly differentiated innovative organizations from stagnant organizations. He found that innovative climate resulted in superior performance measured in terms of number of patents, originality of ideas, superior business strategies, and ability to develop and launch superior new products and services. Mumford and Gustafson (1988) study revealed that even when individuals in an organization have the capability to innovate, their willingness to do so depends on the climate and environment in the organization. Cummings and Worley (2004) gave six guidelines for cultural change. They are in line with the eight distinct stages mentioned by Kotter (1995): formulate a clear strategic vision; commitment by top-management; institute a culture change from the highest level;
enable change in the organization; encourage newcomers to socialize; and developing ethical and legal sensitivity.

These studies support the view that organizations climates which nurture innovation help in generating and implementing new unique and innovative ideas. Such climates also adequately support employees by recognizing and rewarding their creative efforts.

Schein, (1985); King, (1990); Osborne, (1998); Schin and McClomb, (1998) suggested that leadership has a major influence on innovation in organizations. Transformational leaders have the ability to create and nurture a culture that encourages and supports innovation (Peters and Waterman, 1982; Van de Ven, 1986). Leaders also enhance an organization’s innovative abilities by channeling the resources of the organization to develop innovative products and services (Hasenfeld, 1983). Leaders can define and shape the climate that contributes to innovation in organizations (Amabile, 1998). Dess and Picken’s research (2000) revealed that organizational innovation is a reflection of leadership styles. Ancona and Caldwell, (1987) study showed that transformational leadership supports and promotes innovation in an organization.

Bass, (1985); Gardner and Avolio, (1998); Jung, Chow, and Wu (2003) supported the view that transformational leadership enhances innovation in organizations by motivating employees toward higher levels of performance. Shamir, House, and Arthur, (1993) Sosik, Avolio, and Kahai, (1997) believed that leaders influence innovation capabilities of an organization by encouraging employees to think creatively. Other research studies by Henry, 2001; Howell and Higgins, (1990); West et al., (2003) Elenkov and Manev’s (2005) revealed that leaders and top managers have the ability to positively influence innovation processes in organizations. Another study by Jung et al. (2003) revealed that transformational leadership had a significant and positive relationship on organizational
innovation. These researchers believed that leaders had the capacity to create “an
organizational culture in which employees are encouraged to freely discuss and try out
innovative ideas and approaches”

Henry, (2001); Bundy, (2002) supported the view that encouragement by leaders
motivates employees to experiment and test new ideas. These are integral to the process
of innovation. Elenkov and Manev study (2005) identified that leader behaviors which
stimulate employee participation and encourage new ideas are integral to the innovation
process in organizations. A leaders’ ability to support innovation is based on his vision
and values, which contribute to creating a culture that facilitates organizational innovation
(Elenkov and Manev, 2005; Nutt, 2002).

Parry and Thomson (2002), Sarros, Cooper, and Santora (2008), Jung, Wu, and Chow
(2008) have explored culture from leadership perspective. They studied the influence of
leaders on innovation culture of organizations. Parry and Thomson (2002) and Sarros,
Cooper, and Santora (2008) research revealed a positive influence of transformational
leadership creating a culture that supports innovation. Wu, and Chow (2008) studied the
relationships between top managers’ leadership styles, organizational climate and
innovation.

Leadership significantly impacts employee satisfaction and innovation, (Howell and
Avolio; Podsakoff, Todor, and Skov, 1982; Smith, Carson, and Alexander, 1984;
Thomas, 1988; Anderson and King, 1993; Waldman, Ramiréz, House, and Purnam, 2001;
Zaccaro, 2001).

Nystrom (1990) studied the role of leadership on innovation in a Swedish organization.
His study revealed that leadership can impact organizational climate for innovation. His
study showed that leadership had an impact on climate which had an impact on the
innovative potential of the organization. Scott and Bruce (1994) proposed and demonstrated through their Leader Member Exchange Theory (LMX) that leader behaviors can create a climate for innovation. Their study showed that if the relationship between the leader and the subordinates in terms of support, trust, and autonomy, the subordinates perceived that there was a better climate for innovation in the organization. Burman and Evans (2008) believed that ‘leadership’ can have a positive influence on the innovation culture of an organization.

Deal and Kennedy, (1982); Peters and Waterman, (1982); Tichy, (1983) suggested that firms with sustained superior financial performance have a strong set of core values that define the ways they conduct business. It is these values that foster innovativeness in organizations. Osborne, 1991; Collins and Porras 1996; Klein and Sorra 1996; Bart et al., 2001; Analoui and Karami, 2002 have shown that core values have had a positive impact on innovation culture of organizations. The primary premise of their research studies is that implementation of innovation is dependent on organizational members’ perceptions of the fit of the innovation to their values.

Hofstede (2001) identified a set of values that could predict creativity and innovation capabilities of organizations. He believed that low uncertainty avoidance, low power distance, and high individualism could positively influence creativity in organizations. He also believed that moderate levels of these values may facilitate the implementation of innovations only with adequate help and support from the leaders.

Schwartz (1999) identified value dimensions that could promote or hinder innovations in organizations. He believed that conservatism reflected an emphasis upon maintenance of the status quo; whereas intellectual autonomy was beneficial for promoting creativity and innovation in organizations.
Martins and Terblanche (2003) study revealed that values, norms and beliefs play an important role in supporting innovation in organizations.

Many organizations believe that creativity is essential to maintain a competitive advantage in today's highly competitive markets. (Reiter-Palmon and Illies, 2004). Amabile, (1983, 2000) was of the opinion that creativity is a necessary precursor for innovation. It is essential to encourage creativity in order to develop unique new products and services. However, implementation of new ideas often requires major changes in organizational processes and procedures (Damanpour, 1991; Kirton. 1976; Chan, 1996; Foxall and Hackett, 1992; Scott and Bruce, 1994; West, 2002). The proper channelization of creativity leads to innovation (Amabile, 2000; Kanter, 1988; Mumford and Gustafson, 1988; Van de Ven, 1986).

Dillion, (1982); Mumford, et.al (1991) believed that circumstances need to be conducive for innovative ideas in organizations in order for creativity to flourish. A study by Cook (1998) revealed that creativity was a necessary element for an organization to have a competitive advantage over other organizations. Mc Adam and McClelland, (2000) believed that organizations needed to focus on channelizing creativity within the organization to design unique new products that meet the needs of customers more effectively than their competitor’s products.

Majaro (1988) studied innovation from the perspective of a process through which creative ideas are transformed into unique products and services. Gurteen (1998) made a distinction between creativity and innovation. He believed that creativity pertained to generation of new ideas whereas innovation was the process of converting these ideas into unique products and services. According to him, “creativity required divergent thinking process, while innovation a convergent one”.

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Creativity in organizations has been studied extensively in management literature yet there is a lack of consensus and clarity on this concept. For the present study, creativity is considered as a process of generating new ideas that could be translated into unique products and services that offer superior value to the customers. These novel ideas could come from both within and outside the organization.

Creativity is considered as the foundation for innovation. An organization’s innovative capabilities depend on how successful it is in implementing the creative ideas generated by people in the organizations. Organizations that are able to manage creativity on a consistent basis, perform better than the competition (Amabile, 1997; Gilmartin, 1998; Manion, 1993).

Recent research on creativity in organizations is focusing on the complexities relationship between individuals and complex social environment in which they work to achieve the organization’s goals. “They must focus on the relationships between a creative person, the creative process, the creative product, the creative situation, and the interaction of each component to understand organizational creativity.” (Woodman, et al., 1993)

Amabile (1998) stated that “organizational creativity occurs at the intersection of personal motivation, organizational resources and creativity-relevant management techniques”.

Woodman, et al., (1993) believed that “organizational innovation is the collective creativity of the individuals and small groups working within a complex social system. The end-product of this creativity is an innovation that is both valuable and useful to the organization or its consumers.”

Van den Ven (1986) observed that organizational creativity is expected to occur in complex organizational environments that are set up to preserve the status quo of work
experience. These contrasting phenomena pose a challenge to even the most experienced leaders and managers. They need to figure out how to motivate employees to be creative and feel free to share views and ideas on diverse issues. A study by Woodman, et al., (1993) revealed that creativity is best stimulated in a work environment in which risk taking and idea exchange are encouraged. Woodman, et al., (1993) believed that employees must have autonomy over their work, and there must be free and transparent information flow, for creativity to flourish in an organization.

Two important models in organizational creativity are the componential model (Amabile, 1988) and the interactionist model (Woodman, Sawyer and Griffin, 1993). The componential model achieved two main purposes: (a) defining the requirements for creativity and innovation and (b) conceptualizing the relationship between creativity and innovation. In the componential model, creativity was generally associated with individuals whereas innovation was described as an organizational phenomenon.

Amabile’s study (1997) revealed that, people in an organization would be motivated to be creative if (a) the environment in the organization is tolerant to experimentation and taking calculated risks; (b) the environment is adaptable to change rather than trying to maintain status-quo; (c) management recognizes employees’ capabilities and rewards their efforts; and (d) encourages collaboration between teams and departments within the organization. According to Amabile (1997) in order for creativity to flourish in an organization, adequate and appropriate financial and material resources should be provided to employees. They must also be given freedom to take time out and work on creative projects. Amabile suggested some managerial practices to promote innovation in an organization. They were: teams should be created based on the skills of employees; feedback should be given in a transparent and timely manner; the team members should
be given autonomy to execute a task as long as it is in sync with the vision of the organization. (Amabile, 1988, 1997).

Woodman, Sawyer and Griffin’s (1993) interactionist model assumed that creativity in organizations was affected by factors influencing the interactions between individuals in an organization. The model gave special emphasis to intra-organizational influences that stimulated or inhibited organizational creativity. Several other researchers such as Amabile and Gryskiewicz (1989), Amabile et al (1996), Oldham and Cummings, (1996), Ekval et al (1983) and Ekval (1997), Shalley, Gilson and Blum (2000) also drew attention to the importance of the role of work environment for stimulating creativity in organizations.

Some researchers (Amabile, 1995; Woodman, 1995) were of the opinion that it may not be possible to be managed directly, it could be influenced by altering the work environment. Hence, managers can motivate people in the organization to be creative by created an environment that nurtures and supports innovation. (Taggar, 2002; Amabile, 1988, 1997; Heinze et al. 2009; Oldham and Cummings, 1996; Shalley, Gilson and Blum, 2000; Woodman, Sawyer and Griffin, 1993).

The “KEYS” construct (Amabile and Gryskiewics, 1989, Amabile et al, 1996) and the “Creative Climate Questionnaire” (CCQ) (Ekval, 1996), were the two prominent tools developed to study the relationships between creativity and innovation. These were designed to help identify the motivating factors for creativity in an organization. “KEYS” construct measured factors such as: the level of encouragement for creativity; the degree of freedom, resources at the disposal of the team, and the bottlenecks to accomplish a task in the organization (Amabile et al, 1996).
“CCQ” was designed to study factors like the degree of freedom given to employees, encouragement and support for creative ideas, trust and openness in communication, for assessing the level of support for creativity in the organization (Ekval, 1996).

Mullane, 2002; Zakariasen and Zakariasen, 2002; David and David, 2003; Sufi and Howard, 2003; Kilpatrick and Silverman, 2005; Evans, 2005; Allio, 2006; Barrett, 2006 have also identified positive relationships between creativity, culture and innovation.

Narver and Slater (1990) were of the opinion that organizations needed to stay close to customers and understand their needs to create superior and unique products and services. Gatignon and Xuereb (1997); Han et al., (1998), believed that customer orientation enabled organizations to uncover latent needs of customer and thus enhanced the innovative capabilities of organizations. Narver, Slater and MacLachlan, (2004); Appiah-Adu and Singh (1998); Kahn (2001), Gatignon and Xuereb (1997) and Grinstein (2008) supported the view that customer orientation and a positive influence on innovation capabilities of organizations.

Deshpandé and Webster 1993; and Henard and Szymanski 2001 studied the relationships between customer focus, culture and innovation. Their studies used the following constructs: transformational organizational culture, climate for innovation, and customer orientation. Deshpandé and Webster’s study focused on Japanese firms. Henard and Szymanski’s study was based on a meta-analysis of new product performance of companies. They identified 24 predictors of new product performance and concluded that product advantage, market potential, meeting customer needs, predevelopment task proficiencies and dedicated resources have the most significant impact on new product performance.
Jaworski and Kohli, (1993) believe that customer orientation has been given little importance despite great attention to the concept from marketing scholars. They point out that it is a taken-for-granted fundamental principle in marketing practice and, perhaps for this reason, has seldom been examined empirically. Jaworski and Kohli’s description of customer orientation centered on organization wide and dissemination of market intelligence and responsiveness to it. Slater and Narver, (2000) reinforced Jaworski and Kohli’s conceptualization of market orientation. They classified the behavioural components of market orientation as customer orientation, competitor orientation, and inter-functional coordination.

Han, Kim, and Srivastava, (1998) examined the impact of three components of market orientation – ‘customer orientation’, ‘competitor orientation’, and ‘inter-functional coordination’ on innovative capabilities and corporate performance. However their study was restricted only to select companies in the banking industry.

Kandampully, (2002) believed that an organization does not benefit from an innovation unless it provided superior value to customers. He stated that an organization can realize its innovation potential only when all its energies are focused on delighting the customer. His research focused on a single organization study in the service industry.

Desouza, et al., (2008) believed that organizations can no longer assume that they possess all the knowledge and capabilities for innovating. According to them, organizations that take advantage of customer-driven innovation to enter new markets and further their growth will emerge as leaders in their market place. They discuss involving customers at different stages in the innovation process. This study was based on exploration of theoretical concepts related to customer focus and innovation and did not analyze primary data.
Lindic and Marques da Silva, (2011) opined that managers should support and encourage innovations that offer superior value to customers. Their research was based on a case study on the practices at Amazon.com.

Recent research has revealed that it is no longer sufficient for organizations to rely on best practices. They need to focus on next practices to stay ahead of the competition. ‘Best practice’ focuses on past innovations while ‘next practice’ focuses on future innovations.

Hargreaves, (2003) believed that organizations would benefit better by adopting next practices over best practices because it helps to understand strengths and weaknesses of current best practice and motivates the organization to achieve new levels of performance. They believed that people in organizations should be given the freedom to challenge the status quo. They must also be given the freedom to share unique and creative ideas on diverse perspectives. These initiatives could enable an organizations to retain the best from past practices and simultaneously be adaptive and agile enough to adopt new practices.

According to Prahalad (2004) a ‘next practice’ should meet three criteria: (a) it should be future-oriented, (b) it should not assume that any single person is an exemplar of everything that could happen, and (c) it is about connecting the dots by amplifying the weak signals. Next practices are focused on end users and help to stimulate and accelerate the process of innovation in organizations. They can be better adopted by critically scanning the macro environment and focusing on contemporary problems.

Bentley and Gillinson, (2007) outlined two important attributes of next practices – (a) next practices are best revealed by lead users. This category of people are always experimenting with cutting edge next generation technologies. (b) The lead users are
generally pioneers in their field and the most likely to be the best people to propagate new technologies.

Assumptions of next practices – First, for any next practice to be successful it must be well accepted in the organization. Hannon (2007) believed that such next practices usually emerge from a “combination of a methodology with a mobilized group of empowered practitioners motivated by a compelling purpose”.

Secondly, for next practices to be successful, the right set of people who are comfortable with challenging the status quo and have demonstrated the ability to come up with creative solutions need to be selected. These people need to take into account the limitations of existing best practices and balance them with the next practices that they seek to adopt. These innovation missionaries should also have the capability to visualize the macro picture in their area of work and demonstrate the ability to adapt to the rapidly changing scenarios. (Hannon, 2007)

Practitioners of next practices seek to improve upon existing best practices and by demonstrating the ability to take these to the next level. “They are eager to take risks in partnership with others to achieve breakthroughs. They are able to suspend existing assumptions, models and procedures, pushing their thinking beyond known thresholds. They are comfortable being shielded from dominant logic and established procedures” (Brugmann, 2009; MacKay et al., 2009).

Best practices study ‘what has worked’ whereas ‘next practice’ seeks to explore ‘what could work better’. “We will need innovative, outside-the-box, boundary-pushing approaches to practice in the 21st century. Shifting focus from best practice to next practice is a natural and vanguard progression, and is a viable means of future-proofing the organization.” McGregor (2009)
“Customers, of course, are increasingly demanding participation. They expect the ability to co-create and lead innovation, and their volubility has forced companies to devise creative solutions to be competitive in a new bottom-up age” Winsor (2009).

The significance of organizational culture on innovation is reflected in other works such as Syrett (1997), Ahmed (1998), McDermott and Sexton (1998), Turock (2001), Knight and Cavusgil (2004), and Angel (2006). These authors concur on the role of organizational culture in nurturing innovation in organizations.

Research studies have also shown that organizations with superior innovative capabilities have been able to perform significantly better than the competition - Kashani, Miller (2000), Drucker (2002), Terblanche (2003), Kim and Mauborgne (2005) Davila, Epstein and Shelton (2005), Hamel (2006), Poskiene (2006), Kanter (2006), Anthony, Eyring, and Gibson, (2006), Hamel (2006), Jonash, Donlon (2007), Khazanchi et al. (2007), Kenny and Reedy (2007), Anthony (2009), Christensen (2012). These explanations suggest that ‘culture’ plays an important role in fostering innovation in firms, which contributes to their sustained superior performance.

After extensive review of literature and consultation with management experts, practicing senior managers in companies and academicians the study of culture identified six parameters for the study of organization culture.

**Six parameters of Organization Culture for this study**

**Organization Climate:** ‘Organization climate’ refers to the work environment in an organization that influences the actions, behavior and performance of people in the organization. It shows the extent to which an organization emphasizes and practices the principles enshrined in its values. Climate is predictor of the success of an organization.
Leadership: Leadership refers to the ability of an individual or a group of individuals to sync the passion of the employees to the goals of an organization. Good leaders inspire others through their personal behavior and character, they encourage their subordinates to challenge the status quo, and give them freedom to make decisions to accomplish the tasks assigned to them.

Core Values: ‘Core values’ and beliefs form the philosophy and ideology and define the purpose, mission and the long time commitment of the people in the organization. An organization’s core values reveal what the organization stands for. They represent the most cherished principles of an organization. The values of an organization are like the bedrock on which the organization is built and they represent the core reason why it exists.

Customer Focus: ‘Customer focus’ refers to the orientation of an organization toward serving the needs of its customers. An organization that is focused on the needs of its customers, aligns all its activities, processes and decisions to enrich the lives of its customers with superior and unique offerings that surprise, amaze and delight them.

Creativity: Creativity relates to sourcing seemingly unrelated ideas from diverse sources, and coming up with unique solutions. In an organizational context, creativity refers to the process of converting imaginative ideas into unique and superior products and services.

Envisioning Future: ‘Envisioning Future’ refers to the capabilities of highly innovative organizations to identify market trends ahead of the competition and design unique and innovative products to meet the ever changing needs of customers. Envisioning the future of an organization enables it to align its values, goals and actions to meet strategic goals. It also helps to infuse a high level of synergy among members of the organization.
**Leading innovative organizations**: leading innovative organizations are those that have demonstrated the ability to innovate successfully on a consistent basis for at least eight years. Their superior innovative ability has enabled these organizations to maintain leadership positions in their respective industries. Most of these organizations have been number one in their respective industries for the type of innovation they are best known for. Businessweek has consistently conducted surveys for the past eight years from 2005 - 2012 to identify the 50 most innovative companies of the world. Seven multinational companies were chosen for this study from the Businessweek list and remaining eight were chosen from India from different areas of expertise and operation. These organizations were best known for their innovation capabilities in their respective industries.

**Definition of Key Terms**

**Profits** – are referred to as the financial benefit gained by an organization when the incomes earned exceeds the expenditures incurred by it.

**Product quality** – refers to a set of features and attributes present in a product that enable it to meet specific requirements of customers.

**Intense customer focus** – refers to aligning all the activities, strategies, processes, decisions, goals of the organization to introduce innovative products and services that delight customers.

**Emphasis on cutting edge technology** - organizations obsessed with being at the forefront of technological advances and coming out with newer and superior ways to address the needs of the customer.
**Organizational agility** – refers to the capability of a company to rapidly change and adapt to changing circumstances like changes in consumer preferences and tastes, competition, government regulations or other external forces.

**Striving to be a pioneer in the industry** - organizations that constantly strive to be the first to design and develop new products, processes and services. These organizations strive to be leaders in their industries and in the area of their competence.

**Innovation leadership** – these organizations remain always at the cutting edge in development of new concepts and ideas in introducing new product features, uses, or introducing new business processes or models.

**Intellectual Property (IP) strength** - the ability of an organization to protect its ideas through patents, copyrights, trademarks and derive benefit from them.

**Innovation knowledge flow** – refers to creating an environment in an organization where there is a free and transparent flow of information and knowledge. An environment people feel free to interact with each other and discuss ideas and opinions on diverse issues, such an environment helps to encourage innovation in the organization.

**Reputation for innovation** – it is a combination of perceptions, beliefs and opinions of an organization’s innovation abilities by its stakeholders.

**Innovation partner relationships** – refers to the ability of an organization to collaborate, co-develop and innovate with partners to provide superior value for customers.
Organizational trust refers to the confidence in the character and competence of people in the organization. Trust exists only when there is confidence in the capabilities of the people involved – a leader must believe in the capability of the subordinates to execute the assigned tasks and the employees must have faith in the leader’s abilities to guide them in the right direction.