Organizational Culture, Creativity, and Innovation

Chapter Outline

The Basic Nature of Organizational Culture
Forms of Organizational Culture
Creating and Transmitting Organizational Culture
Why and How Does Organizational Culture Change?
Creativity in Individuals and Teams
Promoting Creativity in Organizations
The Process of Innovation

Special Sections

Making Sense Out of Common Sense
Beyond the Cheerleading

In a Diverse World
Where in the World Is Entrepreneurial Creativity Promoted?

How to Do It
How to Inspire Innovation
After reading this chapter you should be able to:

1. Define organizational culture and identify its core characteristics and the various functions it serves in organizations.
2. Describe the four major forms of organizational culture specified by the competing values framework.
3. Explain the factors responsible for creating and transmitting organizational culture and for getting it to change.
4. Define creativity and describe the basic components of individual and team creativity.
5. Describe various approaches to promoting creativity in organizations.
6. Identify the basic forms and targets of innovation and the stages of the innovation process.

Preview Case

Apple: Innovative to the Core

In the aftermath of the dot-com bust of the late 1990s, most high-tech companies slashed their research and development budgets, but not Apple Computer. Following its image of making the most elegant and easy-to-use computers, the Apple iPod has been not only the company’s ticket to financial riches, but also the most influential new technology product in years (with 8.5 million sold through the middle of 2006).

The man behind this success is Apple’s CEO, Steven Jobs. After founding the company in 1976, he was ousted in 1986, only to come back aboard in 1997. It was then that the company shifted into high gear with respect to innovation. A slew of new computers (e.g., various incarnations of the iMac, the Mac Mini, and others) and, of course, the iPod has made Apple one of the most highly regarded high-tech companies in the world. The secret, Jobs says, is that “We hire people who want to make the best things in the world,” noting that Apple employees work very hard and care greatly about the products they make.

These products involve not only hardware, but software—where one of the greatest innovations has occurred. The company’s iTunes jukebox software program morphed into the iTunes music store, which is the first online music service to sell over 1 million songs in the form of downloaded files. Innovations of this type are controlled accidents, more or less. Although the company does not legislate innovation—nor can it do so—the creative spirit is in the air throughout Apple’s Cupertino, California headquarters. As Jobs put it, “Innovation comes from people meeting up in the hallways or calling each other at 10:30 at night with a new idea, or because they realized something that shoots holes in how we’ve been thinking about a problem. It’s ad hoc meetings of six people called by someone who thinks he has figured out the coolest new thing ever and who wants to know what other people think of his idea.”

Personally, Jobs contributes to the company’s innovative spirit when and how he can. He spends some of his time sharing new ideas with the OS X team and some with the group doing iLife applications. “I get to spend my time on the forward-looking stuff,” because, as Jobs says, “My top executives take half the other work off my plate.”

One of Apple’s latest ideas—and certainly its boldest—called for moving to Intel chips in its computers, allowing Macs to run Windows software as well as its own operating system. This shift, made in April 2006, was a clear effort by Apple to accommodate itself to the rest of the computer world. Although many Mac aficionados have taken pride in Apple’s distinctiveness from the dominant Microsoft Windows operating system, this latest innovation was hailed by industry insiders as being in the best interest of the company and the computer industry as a whole.
There can be no doubt that Apple’s software and hardware engineers bring a wealth of creativity and talent to their jobs. At the same time, it is not only their individual creativity that makes Apple so effective at coming up with exciting new products, but also the company’s commitment to innovation. To be sure, there is something special about Apple that makes its engineers and developers so devoted to developing the best new products. That special something is not in the form of magic found in the company’s next whiz-bang product. Rather, it is something far more human in nature—Steve Jobs’s infectious enthusiasm and his willingness to make the best possible products.

If you have worked in several different organizations, it’s probably been your experience that each is unique in one way or another. Even organizations concerned with the same activities or that provide similar products or services can be very different places in which to work. For example, in the world of retailing, Wal-Mart employees long have been encouraged to be agents for the customer, focusing on service and satisfaction.1 By contrast, for many years, employees of Sears allegedly were forced to meet stringent sales quotas, which led them to pressure customers into making unnecessary purchases.2 Both are large national chains selling a large variety of goods. Somehow, these similar businesses have taken very different approaches to customer service. Why is this so? To a great extent, the answer rests in the shared beliefs, expectations, and core values of people in the organization—what is known as organizational culture.3 Once established, these beliefs, expectations, and values tend to be relatively stable and exert strong influences on organizations and those working in them.

Among these influences lies a particularly important one—an organization’s tendency toward creativity and innovation. As you know, some people regularly take novel, ingenious, and cutting-edge approaches to the problems they face. Likewise, some organizations—Microsoft and Corning among them—are far more innovative than others. It’s unlikely that people in one organization, by chance alone, will just happen to be more creative than people in another. Indeed, companies such as 3M, Toyota, and Rubbermaid go out of their way to breed the kind of cultures in which creativity and innovation flourish (see Figure 14.1).4

What makes these companies—and others like them—the kinds of places where people routinely do the nonroutine? This question, concerning the culture of creativity and innovation, is the focus of this chapter. We will begin by describing the basic nature of organizational culture, including the role it plays in organizations. Then we will describe the processes through which organizational culture is formed and maintained. Following this, we will review the effects of organizational culture on individual and organizational functioning, examining when and how culture is subject to change. This discussion will prepare us for understanding the nature of creativity and innovation in organizations, the major topic covered in the second half of this chapter. Finally, our focus will move from consideration of what makes individuals and teams creative, to how this creativity can be harnessed to implement innovative ideas in organizations.

The Basic Nature of Organizational Culture

To fully appreciate organizational culture we have to understand its basic nature. With this in mind, we will now examine five fundamental aspects of culture: (1) its formal definition, (2) the key characteristics on which it is based, (3) the strength of organizational culture, (4) whether there is generally only one or more than one culture within organizations, and (5) the role that culture plays in organizational functioning.

Organizational Culture: A Definition

Although we have been talking about organizational culture in general terms thus far, a specific definition is now in order. Accordingly, we define organizational culture as a cognitive framework consisting of attitudes, values, behavioral norms, and expectations shared by organization members.5 Scientists often think of organizational culture as a set of basic assumptions shared by members of an organization.
Some management experts have likened the role played by organizational culture to the roots of trees. What roots do for the life of a tree, culture does for the life and performance of an organization. Just as roots provide stability and nourishment for trees, so does culture provide stability and nourishment for organizations. Culture supports and feeds everything that goes on inside an organization. As one expert put it, “the strength of a firm’s ‘root system’ ultimately shapes and determines its ability to perform in the marketplace.” With this in mind, the importance of organizational culture cannot be emphasized too strongly.

Core Cultural Characteristics

At the root of any organization’s culture is a set of six core characteristics that are valued collectively by members of an organization. We now describe each of these (for a summary, see Table 14.1).

Sensitivity to Others. Years ago, the culture at UPS was relatively rigid and inflexible with respect to customer needs. They operated however they thought best, and forced customers to adjust to their ways. Today, however, a new culture is in place in which customer service and satisfaction are highly valued. UPS now strives to suit the needs of its customers; the culture is such that changes are driven by opportunities to better serve customers. The same can be said of Amazon.com (as we describe in this chapter’s Case in Point on p. 580).

Interest in New Ideas. Walt Disney Co. employees—or “cast members,” as they are called—undergo lengthy orientation programs to ensure that they know exactly what to say and how to behave toward guests. For the most part, their behavior is scripted. By
Organizations may be distinguished by their basic values, such as the fundamental ones summarized here.

- Sensitivity to the needs of customers and employees.
- Interest in having employees generate new ideas.
- Willingness to take risks.
- The value placed on people.
- Openness of available communication options.
- Friendliness and congeniality of the employees toward one another.

Source: Based on suggestions by Martin, 1996; see Note 7.

Toxic Organizational Cultures
Organizational cultures in which people feel that they are not valued (opposite of healthy organizational cultures).

Healthy Organizational Cultures
Organizational cultures in which people feel that they are valued (opposite of toxic organizational cultures).

Contrast, people working at Southwest Airlines are encouraged to be unique and to bring fresh ideas to their work. In fact, company founder Herb Kelleher is so adamant about this that managerial training is geared toward hiring people who bring to the job an attitude of openness and fun.\(^\text{10}\)

Willingness to Take Risks. At some companies, such as the Bank of America, the culture is very conservative, and employees make only the safest investments. By contrast, buyers at The Limited are discouraged from making too many "safe" choices. Taking risks in the purchasing of fashion merchandise is valued.\(^\text{11}\)

The Value Placed on People. Some companies consider their employees as valuable only insofar as they contribute to production, much as they view machinery. Such organizations, where people do not feel valued, are considered to have toxic organizational cultures. A recent survey found that 48 percent of people believe they work in toxic cultures.\(^\text{12}\) Organizations with toxic cultures tend to lose good employees, and struggle to be profitable as a result. By contrast, organizations that treat people well and that inspire employees—said to have healthy organizational cultures—tend to have very low turnover, and generally thrive.\(^\text{13}\) Examples of companies with healthy cultures include Enterprise Rent-A-Car, the Men’s Wearhouse, and the Container Store. For an overview of the characteristics of healthy organizational cultures, see Table 14.2.\(^\text{14}\)

Openness of Available Communication Options. In some companies, such as Yahoo!, the popular Internet media company, employees are expected to make decisions freely and to communicate with whoever is needed to get the job done—even if it means going right to CEO Timothy A. Koogle.\(^\text{15}\) At IBM, however, the tradition has been to work within the proper communication channels and to vest power in the hands of only a few key individuals, although this has been changing in recent years.\(^\text{16}\)

Friendliness and Congeniality. At some companies, such as Nokia Corp., the employees tend to get along well. Friendships tend to run deep, and employees see each other outside of work.\(^\text{17}\) At the toymaker Mattel, however, the culture is far more cutthroat and competitive.\(^\text{18}\)

Strength of Organizational Culture: Strong and Weak
As we have been suggesting, organizations differ in many key ways with respect to the nature of their cultures. However, they also differ with respect to the degree to which their organizational cultures impact the people in the organization. In some organizations, there is widespread agreement with respect to the six elements of organizational culture we just described (i.e. sensitivity to others, willingness to take risks, etc.), making it possible for these factors to exert major influences on the way people behave. An organization of this
TABLE 14.2 Characteristics of Healthy Organizational Cultures

Healthy organizational cultures are ones in which value is placed on treating people well. Such organizations tend to inspire employees and have low levels of turnover. They are marked by the eight characteristics summarized here.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Everyone in the organization is open and humble.</td>
<td>Arrogance is absent. This is good because it encourages everyone to learn from everyone else.</td>
</tr>
<tr>
<td>People are held accountable and accept personal responsibility for their actions.</td>
<td>Denial, blame, and excuses are absent. By accepting responsibility, conflict is lowered and opportunities for success are boosted.</td>
</tr>
<tr>
<td>Within appropriate limits, people are free to take risks.</td>
<td>Neither reckless risk-taking nor stiflingly high levels of control are found. Hence, freedom exists to follow new ideas.</td>
</tr>
<tr>
<td>The commitment to do things well is very high.</td>
<td>Mediocrity is not tolerated. Everyone is expected to do things appropriately, not taking shortcuts to quality.</td>
</tr>
<tr>
<td>Mistakes are tolerated because they are considered learning opportunities.</td>
<td>Healthy innovation helps the organization, but some failures are inevitable. These are accepted because they provide opportunities to learn how to improve things next time.</td>
</tr>
<tr>
<td>Integrity is unquestioned.</td>
<td>Dishonesty undermines trust, and trust is essential to success. As a result, efforts to promote integrity, such as being transparent about decisions and following up on promises, is key.</td>
</tr>
<tr>
<td>Collaboration and integration between units is ongoing.</td>
<td>Turf wars and narrow thinking are discouraged. Instead, people work together in open, friendly, collaborative environments.</td>
</tr>
<tr>
<td>Courage and persistence are encouraged.</td>
<td>Work often is challenging. In healthy cultures everyone is encouraged to persist even in the face of failure, so long as they remain realistic about what can be accomplished.</td>
</tr>
</tbody>
</table>

Source: Institute for Business, Technology, and Ethics, 2004; see Note 14.

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**strong culture**
An organization in which there is widespread agreement with respect to the core elements of culture, making it possible for these factors to exert major influences on the way people behave.

**weak culture**
An organization in which there is limited agreement with respect to the core elements of culture, giving these factors little influence on the way people behave.

Recent research has shown that organizations with strong cultures and weak cultures differ in some interesting ways. For example, stronger organizational cultures are likely to be found in organizations that are newer and that have fewer employees. This suggests that perhaps as companies grow older and larger in size, the effects of culture become diffused. This would be the case, for example, as the influence of a company founder grows smaller because his or her impact is felt less in a maturing organization. Also, organizations are more successful financially when their leaders hold views that are in keeping with the organizational culture than when leaders’ personal perspectives are at odds with the prevailing culture. This makes sense given that workers may find themselves responding to inconsistent and competing messages when such inconsistencies exist. Together, these findings suggest that strong cultures shape the preferences and actions of people in the organizations that have them.
Cultures within Organizations: One or Many?

Our discussion thus far has implied that each organization has only a single, uniform culture—one set of shared values, beliefs, and expectations. In fact, this is rarely the case. Instead, organizations, particularly large ones, typically have *several* cultures operating within them.

People generally have attitudes and values that are more in common with others in their own fields or work units than they do with those in other fields or other parts of the organization. These various groups may be said to have several different *subcultures*—cultures existing within parts of organizations rather than entirely through them. These typically are distinguished with respect to either functional differences (i.e., the type of work done) or geographic distances (i.e., the physical separation between people). Indeed, research suggests that several subcultures based on occupational, professional, or functional divisions usually exist within any large organization.

This is not to say, however, that there also may not be a *dominant culture*, a distinctive, overarching “personality” of an organization—the kind of culture to which we have been referring. An organization’s dominant culture reflects its core values, dominant perceptions that are generally shared throughout the organization. Typically, members of subcultures who generally share additional sets of values also generally accept the core values of their organizations as a whole. Thus, subcultures should not be thought of as a bunch of totally separate cultures but, rather, as “mini” cultures operating within a larger, dominant culture.

**The Role of Culture in Organizations**

As you read about the various cultural values that make organizations special, it probably strikes you that culture is an intangible force—albeit one with far-reaching consequences. Indeed, culture plays several important roles in organizations (for a summary, see Figure 14.2).

- **Culture Provides a Sense of Identity.** The more clearly an organization’s shared perceptions and values are defined, the more strongly people can associate with their organization’s mission and feel a vital part of it. For example, employees at Southwest Airlines feel special because of their company’s emphasis on having fun and joking around on the job, a widespread practice initiated by founder Herb Kelleher.20 Southwest’s employees feel strongly associated with the company, that they belong there. As a result, they only infrequently resign to take other positions in the airline industry.

- **Culture Generates Commitment to the Organization’s Mission.** Sometimes it’s difficult for people to go beyond thinking of their own interests (i.e., how will this affect me?). When there is a strong, overarching culture, however, people feel that they are part of that larger, well-defined whole and involved in the entire organization’s work. Bigger than any one individual’s interests, culture reminds people of what their organization is all about.

**FIGURE 14.2**

The Basic Functions of Organizational Culture

Organizational culture serves the three major functions summarized here.
competing values framework
A conceptualization of organizational culture that specifies that cultures of organizations differ with respect to two sets of opposite values: (1) valuing flexibility and discretion as opposed to stability, order, and control, and (2) valuing internal affairs as opposed to what's going on in the external environment.

hierarchy culture
In the competing values framework, a form of organizational culture in which organizations have an internal focus and emphasize stability and control.

FIGURE 14.3
The Competing Values Framework
According to the competing values framework, the cultures of organizations can be distinguished in terms of the two opposite dimensions identified here. Combining these two sets of competing values results in the four types of organizational cultures shown.

Source: Adapted from Cameron & Quinn, 1999; see Note 21.

Forms of Organizational Culture
As you might imagine, just are there are many different organizations, there also are many different organizational cultures. Although each organization may be unique in several ways, key similarities in underlying organizational cultures may be noted. Fortunately, organizational scientists have developed useful ways of organizing and identifying these cultures.

One of the most popular approaches is known as the competing values framework. According to this approach, the cultures of organizations differ with respect to two sets of opposite values (hence, the name). These are:

- Valuing flexibility and discretion as opposed to stability, order, and control.
- Valuing internal affairs as opposed to what's going on in the external environment.

By combining both dimensions, as shown in Figure 14.3, scientists have been able to identify the four unique types of organizational culture we now describe.

Hierarchy Culture
Organizations described as having a hierarchy culture (shown in the lower left corner of Figure 14.3) have an internal focus and emphasize stability and control. Here, the most effective leaders are good coordinators of projects and emphasize a smooth-running organization, often relying on formal rules and policies to do so.

Governmental agencies and large corporations tend to fall into this category. At McDonald’s, for example, key values center on maintaining efficient and reliable production, and to ensure this, both the equipment used and the procedures followed—described in a 350-page manual—are designed with this in mind. Sometimes, because organizations

Culture Clarifies and Reinforces Standards of Behavior. Culture guides employees’ words and deeds, making it clear what they should do or say in a given situation, which is especially useful to newcomers. In this sense, culture provides stability to behavior, both with respect to what an individual might do at different times, but also what different individuals may do at the same time. For example, in a company with a culture that strongly supports customer satisfaction, employees will have clear guidance as to how they are expected to behave: doing whatever it takes to please the customer.

By serving these three important roles, it is clear that culture is an important force influencing behavior in organizations.
with hierarchy cultures are so attuned to internal concerns at the expense of external concerns, and so focused on stability as opposed to making necessary changes (which often are necessary; see Chapter 16), serious problems result (for a particularly tragic example, see Figure 14.4).²²

**Market Culture**

The term market culture describes organizations that are concerned with stability and control, but are external in their orientation (see the lower right corner of Figure 14.3). In such organizations, the core values emphasize competitiveness and productivity, focusing on bottom-line results. They do this by carefully identifying the markets in which they are going to compete and then taking a very hard-driving, results-oriented approach to getting things done.

Perhaps the classic example of a market culture can be seen at General Electric. For many years, under the guidance of former CEO Jack Welch, the culture called for making each one of GE’s business units either first or second in its respective markets. Otherwise, the mandate from Welch was clear—fix, sell, or close the unsuccessful business.²³ He explained this as follows:

> When you’re number four or five in a market, when number one sneezes, you get pneumonia. When you’re number one, you control your destiny. The number fours keep merging; they have difficult times. That’s not the same if you’re number four, and that’s your only business. Then you have to find strategic ways to get stronger. But, GE had a lot of number ones.²⁴

His approach to market success involved not making small, incremental changes slowly, but rather, making major changes quickly. In this respect, GE operates more like a small company than the enormous one it is.

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**FIGURE 14.4**

**Shortcomings of a Hierarchy Culture: A Tragic Example**

Not surprisingly, as a large government agency, the National Aeronautics and Space Administration (NASA) has a hierarchy culture. Its sharp focus on stability created a culture that was blind to the threat posed by foam debris on its space shuttles. Furthermore, its attention to internal issues as opposed to external matters reinforced employees’ convictions that the agency was far more attuned to making decisions based on safety than it was in reality. Tragically, according to the Columbia Accident Investigation Board, flawed organizational culture was among the factors that led to the explosion of the space shuttle Columbia on February 1, 2003. Although not all hierarchy cultures are doomed to fail, this incident represents an extreme example of what may occur when they do.
Clan Culture

An organization is said to have a clan culture when it has a strong internal focus along with a high degree of flexibility and discretion (see the upper right corner of Figure 14.3). With goals that are highly shared by members of the organization and high levels of cohesiveness (see Chapter 8), such organizations feel more like extended families than economic entities. Given their highly friendly nature, it’s not surprising that most people prefer clan cultures to any of the other forms of organizational culture.25

In the clan culture, the predominant focus is on flexibility when it comes to external needs. This is attained by concentrating on the excellence of the employees, which reflects the internal focus. An example of a company that fits the clan culture is the Finnish conglomerate, Nokia, best known for its cellular phones. At this company, the well-being of employees is a top priority. In contrast to the attention-grabbing element of most high-tech firms, Nokia’s emphasis is on collegiality. As the firm’s former CEO Jorna Ollila put it, “We don’t snap our suspenders.”26

Of importance, clan cultures often are characterized as enjoyable places to work, organizations in which a great deal of attention is paid to doing things to make work fun for employees. Although this makes life pleasant, of course, it’s important to note that cultures in which having fun is stressed also must pay serious attention to meeting serious business objectives. For a discussion of this point, see the OB: Making Sense Out of Common Sense section below.

Adhocracy Culture

Organizations that have an adhocracy culture emphasize flexibility while also paying a great deal of attention to the external environment (see upper right corner of Figure 14.3). As defined by management consultant Robert H. Waterman, Jr., an adhocracy is a form of OB: Making Sense Out of Common Sense

Beyond the Cheerleading

The idea is straightforward, at least in theory: Create a culture in which people feel welcome and respected, and they will be willing to work hard. Organizational success then will follow. As in the case of most OB ideas, however, this formula isn’t quite as simple as it seems.

For many years, executives bought into the idea that creating a winning organizational culture was mostly about cheerleading. They opened up their “cultural cupboards,” as one management expert put it, throwing Friday beer bashes, putting foosball tables in the cafeterias, and even hiring “chief culture officers.”27 Not surprisingly, employees enjoyed the fun atmosphere. They felt good, but positive morale alone isn’t an automatic path to business success (as we noted in Chapter 6). Sure, employees liked it. Who wouldn’t? But such rah-rah isn’t what business is all about.

Too often, managers who focus on morale lose sight of more traditional, financial business metrics. To be totally successful, however, organizational culture must be attuned to winning. After all, a business that doesn’t make money is not likely to be around much longer, let alone having much about which to cheer. And, at the end of the day, employees of small firms in whose ownership they are likely to have invested are likely to be more interested in business success than anything else. That’s what they want to cheer about.

Having a healthy culture requires maintaining focus on the right goals, and this requires attention to specific feedback (as you will recall from Chapter 7). As such, it’s important for organizations to keep careful track of financial performance in an open manner, making key information readily accessible to all. One company in the telephone software business even goes so far as to post a large football-style scoreboard in the conference room. On it are posted all the important figures, such as those regarding sales, expenses, revenues, and the like. By referring to them, employees can see how well the company is doing and make appropriate adjustments as needed. And this, it is hoped, will provide plenty of opportunities for cheering.

Such a practice of openness helps promote the belief that a company has an exciting future. As one expert put it, this makes employees “come to work with a fire inside them, a result of clearly stated leadership and business practices that everyone explicitly understands.”28 Once this occurs, there may well be plenty about which to cheer. And that’s the point: Cheerleading should not be an indulgent avoidance of the development of a winning strategy. Rather, it should be part of it.
organization that cuts across normal bureaucratic lines to capture opportunities, solve problems, and get results. The term *adhocracy* is a reference to the absence of hierarchy, making it the opposite of *bureaucracy* (an organizational form we discuss in Chapters 1 and 15). Typical of contemporary organizations, which often have to make rapid changes in the way they operate (see Chapter 16), the adhocracy culture is characterized by recognition that to succeed organizations need to be highly innovative (a concept we will describe later in this chapter) and constantly assessing what the future requires for survival, let alone growth.

Typical of companies with adhocracy cultures are those in the software development and filmmaking businesses, where it is widely recognized that highly innovative products and services are essential to success (for an example, see Figure 14.5). Not surprisingly, adhocracy cultures also exist in organizations in which research and development is essential. This is the case, for example, at 3M, the large American company that has been producing innovative products for over 100 years (currently, some 55,000 of them). To promote the innovative spirit at 3M, one of its earliest presidents, William McKnight, recognized the importance of a culture in which people were respected and free to take risks. Consider the three principles he articulated back in 1948, which describe an adhocracy culture (although he didn’t refer to it as such): (1) Delegate responsibility to encourage people to take initiative; (2) expect mistakes to be made, so be tolerant of them; and (3) criticize in a constructive, not destructive, manner (see Chapter 9).

Creating and Transmitting Organizational Culture

Now that we have described the basic nature and forms of organizational culture, we turn our attention to three additional issues of importance: how culture is created initially, how it is sustained over time (i.e., what keeps it going once it is created), and when and how it changes.

**FIGURE 14.5**

*Adhocracy Culture in Action*

Although you probably don’t think of it when you’re watching *Wheel of Fortune* on TV, or viewing *The Da Vinci Code* in the theater (note director Ron Howard at work here, standing in the center, wearing a hat), you’re enjoying the products of Sony Pictures. Despite its enormous size (annual sales of over $7 billion), most units of Sony Pictures are considered to have a clan culture, in which individual welfare is valued. This type of organizational culture is typical of that found in most motion picture studios.
How Is Organizational Culture Created?

Why do many individuals within an organization share basic attitudes, values, and expectations? Two key factors contribute to this state of affairs and, hence, to the emergence of organizational culture—the influence of company founders and experiences with the external environment.

Company Founders. Organizational culture may be traced, at least in part, to the founders of the company. These individuals often possess dynamic personalities, strong values, and clear visions of how their organizations should operate. Since they are on the scene first and play a key role in hiring initial staff, their attitudes and values are readily transmitted to new employees. As a result, their views become the accepted ones in the organization and persist as long as the founders are on the scene—and often, long afterward. For a summary of the four major steps involved in this process, see Figure 14.6.

Several good illustrations of the important role of founders may be identified. For example, the culture at Microsoft calls for working exceptionally long hours, in large part because that’s what co-founder Bill Gates has always done. Sometimes, founders’ values can continue to drive an organization’s culture even after that individual is no longer alive. For example, the late Ray Kroc founded the McDonald’s restaurant chain on the values of good food at a good value served in clean, family-oriented surroundings—key cultural values that persist today. Likewise, Walt Disney’s wholesome family values are still cherished at the company that bears his name—in large part because employees ask themselves, “What would Walt think?” These individuals’ values continue to permeate their entire companies and are central parts of their dominant cultures.

**FIGURE 14.6**

**How Do Founders Influence Organizational Culture?**

The cultures of organizations are affected by their founders. This tends to occur over time, generally according to the four steps summarized here.
Experiences With the External Environment. As critical events occur in organizations based on their experiences with the external environment, it’s not surprising that their effects contribute to the development of organizational culture. It’s as if organizations learn from these events and the memories are passed along from person to person, contributing to the development of organizational culture. In this connection, the term organizational memory is used to describe information from an organization’s history that its leaders draw upon later as needed. That information is stored through the recollections of these events and their shared interpretations by key individuals in the organization who pass it along to others.

As an example, consider Sony’s experience with its Betamax format for home video-cassette tapes. Introduced in 1975, this format competed with the VHS format introduced by JVC the following year. If you’re thinking that you’ve heard of VHS, but not Betamax, that’s indeed the story. Sony made two critical errors with Betamax. First, unlike JVC, which permitted open sharing of its technology, Sony licensed its technology, which made it less popular among equipment manufacturers. Second, Sony failed to anticipate the demand for prerecorded movies, leading studios to release films on VHS instead. As a result, Sony’s product never captured the market, and in 1988 it threw in the towel, making VHS-format VCRs.

In the aftermath of this incident, Sony executives learned an important lesson about what it takes to win the battle of formats. The organizational memory of this failure lives on at Sony, making the company more aggressive and more carefully attuned to what it takes to win a “format war.” Today, an analogous battle is heating up once again, with players in the fight for dominance in the vast high-definition DVD market. Sony’s Blue-Ray DVD (BD-DVD) is duking it out with Toshiba’s High Definition DVD (HD-DVD) on the floors of electronics stores. Only time will tell exactly how effectively Sony learned its lesson.

The mechanism by which organizational memories help transmit organizational culture is not surprising. It has to do with the natural tendency of individuals within organizations to come into contact with one another—and to share interpretations of events when doing so. Indeed, the dynamics of people in groups (as discussed in Chapter 8) and their tendencies to communicate with one another (as discussed in Chapter 9) make it possible for incidents to be explained and interpreted to others, thereby perpetuating organizational culture (for an example, see Figure 14.7).

Tools for Transmitting Culture

How are cultural values transmitted between people? In other words, how do employees come to learn about their organization’s culture? Several key mechanisms are involved, including symbols, slogans, stories, jargon, ceremonies, and statements of principle.

Symbols: Objects That Say More than Meets the Eye. Organizations often rely on symbols—material objects that connote meanings that extend beyond their intrinsic content. For example, some companies use impressive buildings to convey their strength and significance, signifying that the company is a large, stable place. Indeed, research has found that the way an organization is furnished provides useful insight into its culture. For example, firms in which there are lots of plants and flower arrangements are believed to have friendly, person-oriented cultures, whereas those in which waiting areas are adorned with awards and trophies are believed to be highly interested in achieving success. These findings suggest that material symbols are potent tools for sending messages about organizational culture. (To demonstrate this phenomenon for yourself, try the Group Exercise on p. 579.)

Slogans: Phrases That Capture Organizational Culture. When you think of the catchy phrases that companies use to call attention to their products and services, you may dismiss them as being merely advertising gimmicks. It should be noted, however, that slogans also communicate important aspects of an organization’s culture, both to the public at large and to the company’s own employees. For some examples of such slogans and what they communicate about organizational culture, see Table 14.3. As you peruse this list, you will see that slogans help convey important information about an organization’s culture, such as what the company stands for and what it values.
Sharing Interpretations of Critical Incidents Promotes Organizational Culture

Some years ago, the American Red Cross discovered that a portion of its blood supply was tainted. Immediately, a vast army of officials rallied to solve the problem by putting procedures in place that would prevent it from reoccurring. Today, as Red Cross employees and volunteers discuss this incident, they assign similar meaning to what happened, perceiving the organization in a similar manner, reinforcing its culture as one in which safety of the blood supply is valued.

TABLE 14.3 Slogans that Reflect Organizational Culture

Corporate slogans often send messages about the cultures of the organizations that use them. By virtue of their slogans, customers, employees, and prospective employees can learn something about the cultures of the organizations listed here. Can you think of other slogans that may reflect the culture of the organizations with which they are associated?

<table>
<thead>
<tr>
<th>Company</th>
<th>Slogan</th>
<th>Message</th>
</tr>
</thead>
<tbody>
<tr>
<td>Circuit City Stores</td>
<td>We’re with you.</td>
<td>We offer support for the technology products we sell.</td>
</tr>
<tr>
<td>Staples</td>
<td>That was easy.</td>
<td>The office products we sell make your life easy, and purchasing from us is a pleasurable experience.</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>Always low prices. Always.</td>
<td>You can count on us for offering everyday low prices.</td>
</tr>
<tr>
<td>Home Box Office (HBO)</td>
<td>It’s not TV. It’s HBO.</td>
<td>Our service is special, not your ordinary television shows.</td>
</tr>
<tr>
<td>Hyatt Hotels</td>
<td>Feel the Hyatt touch.</td>
<td>We take special care of our hotel guests.</td>
</tr>
<tr>
<td>Maxwell House</td>
<td>Good to the last drop.</td>
<td>Our coffee keeps its flavor.</td>
</tr>
<tr>
<td>Maytag</td>
<td>The dependability people.</td>
<td>We are known for our trouble-free appliances.</td>
</tr>
<tr>
<td>MetLife Insurance</td>
<td>Get Met. It pays.</td>
<td>Purchasing our insurance is a good investment.</td>
</tr>
<tr>
<td>Pep Boys</td>
<td>Cars like us. People love us.</td>
<td>You will enjoy purchasing your auto parts and accessories from us.</td>
</tr>
<tr>
<td>Royal Caribbean</td>
<td>Like no other vacation on earth.</td>
<td>Our cruises are unique and special.</td>
</tr>
<tr>
<td>State Farm</td>
<td>Like a good neighbor. State Farm is there.</td>
<td>You can count on friendly and reliable service when you need it.</td>
</tr>
</tbody>
</table>
Stories: “In the Old Days, We Used to . . .”. Organizations also transmit information about culture by virtue of the stories that are told in them, both formally and informally. Stories illustrate key aspects of an organization’s culture, and telling them can effectively introduce or reaffirm those values to employees. It is important to note that stories need not involve some great event, such as someone who saved the company with a single wise decision, but may be small tales that become legends because they communicate a message so effectively. An example may be found at Nike, where employees are told tales about how the company was founded in an effort to help athletes (for some examples, see Table 14.4).

Jargon: The Special Language That Defines a Culture. Even without telling stories, the everyday language used in companies helps sustain culture. For example, the slang or jargon that is used in a company or in a field helps define their identities as members of that group (see Chapter 9). Illustrating this, for many years employees at IBM referred to disk drives as “hard files” and circuit boards as “planar boards,” terms that defined the insulated nature of their culture. Today’s jargon continues to predominate in the high-tech world. For example, within the information technology (IT) community, the term “geek keys” is used to refer to a loose deck of electronically encoded pass cards that are used to gain access to restricted areas, and “egosurfing” refers to the practice of feeding one’s own name to search engines and visiting the resulting hits. Over time, as departments, organizations, or professional groups develop unique language, their terms, although strange to newcomers, serve as a common factor that brings together individuals belonging to a corporate culture or subculture.

Ceremonies: Special Events That Commemorate Corporate Values. Organizations also do a great deal to sustain their cultures by conducting various types of ceremonies. These may be seen as celebrations of an organization’s basic values and assumptions. Just as a wedding ceremony symbolizes a couple’s mutual commitment and a presidential inauguration ceremony marks the beginning of a new presidential term, various organizational ceremonies also celebrate some important accomplishment. These events have importance that go beyond the individuals involved—in this example, the bride and groom, and the new president and vice president. They send clear messages about the institutions of marriage and the presidency to all who participate in or view the ceremony. In this manner, it’s easy to see how they function as important transmitters of organizational culture.

For example, one accounting firm celebrated its move to much better facilities by throwing a party, a celebration signifying that it “has arrived,” or “made it to the big time.”

**TABLE 14.4 The Nike Story: Just Telling It—And Keeping It Alive**

New employees at Nike are told stories that transmit the company’s underlying cultural values. The themes of some of the most important Nike stories are summarized here along with several of the ways the company helps keep its heritage alive.

New Employees Are Told the Following Stories . . .

- Founder Phil Knight was a middle-distance runner who started the business by selling shoes out of his car.
- Knight’s running coach and company co-founder, Bill Bowerman, developed the famous “waffle sole” by pouring rubber into the family waffle iron.
- The late Steve Prefontaine, coached by Bowerman, battled to make running a professional sport and was committed to helping athletes.

To Ensure That These Tales of Nike’s Heritage Are Kept Alive, the Company . . .

- Takes new hires to the track where Bowerman coached and the site of Prefontaine’s fatal car crash.
- Has created a “heritage wall” in its Eugene, Oregon, store.
- Requires salespeople to tell the Nike story to employees of the retail stores that sell its products.

Source: Based on information in Ransdell, 2000; see Note 37.
Such ceremonies convey meaning to people inside and outside the organization. As one expert put it, “Ceremonies are to the culture what the movie is to the script . . . values that are difficult to express in any other way.”

**Statements of Principle: Defining Culture in Writing.** Organizational culture also may be transmitted directly using written **statements of principle**. Some organizations have explicitly written their principles for all to see. For example, Forrest Mars, the founder of the candy company M&M Mars, developed his “Five Principles of Mars,” which still guide his company today. These are as follows.

- **Quality.** Everyone is responsible for maintaining quality.
- **Responsibility.** All employees are responsible for their own actions and decisions.
- **Mutuality.** Creating a situation in which everyone can win.
- **Efficiency.** Most of the company’s factories operate continuously.
- **Freedom.** Giving employees opportunities to shape their futures.

Not only do these principles apply, but company employees are given opportunities to share their feelings about them and their experiences with each other at the company’s Web site. This technique helps reinforce the company’s messages about what it stands for.

Some companies have chosen to make explicit the moral aspects of their cultures by publishing **codes of ethics**; which, as you will recall from Chapter 2, are explicit statements of a company’s ethical values and expectations. According to Hershey Foods’ former CEO, Richard Zimmerman, this is an effective device: “[O]ften, an individual joins a firm without recognizing the type of environment in which he will place himself and his career. The loud and clear enunciation of a company’s code of conduct . . . [allows] that employee to determine whether or not he fits that particular culture.”

**Why and How Does Organizational Culture Change?**

Our comments about the relative stability of organizational culture may have left you wondering why and how culture ever changes. In other words, why isn’t culture simply passed down from one generation of organizational members to the next in unchanging fashion? The answer lies in the fact that the worlds in which organizations operate are in a constant state of flux (see Chapter 16). Shifts in market conditions, new competitors, emerging technologies, altered government policies, and many other factors necessitate changing how organizations operate, and with it, their cultures. We now consider several factors that promote changes in organizational culture.

**Composition of the Workforce**

Over time, the people entering an organization may differ in important ways from those already in it, and these differences may impinge on the existing culture of the organization. For example, people from different ethnic or cultural backgrounds may have contrasting views about various aspects of behavior at work. They may hold dissimilar views about style of dress, the importance of being on time (or even what constitutes “on-time” behavior), the level of deference one should show to higher-status people, and even what foods should be served in the company cafeteria. When people have different views, existing cultural norms are likely to be challenged. And when this occurs, changes in organizational culture can be expected to follow suit.

**Mergers and Acquisitions**

Another, and even more dramatic, source of cultural change is **mergers and acquisitions**, events in which one organization purchases or otherwise absorbs another. When this occurs, there is likely to be a careful analysis of the financial and material assets of the acquired organization. However, it is unusual for any consideration to be given to the acquired organization’s culture. This is unfortunate, insofar as there have been several high-profile cases over the years in which the merger of two organizations with incompatible cultures has led to serious problems referred to as **culture clashes**. Consider these examples:
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In 2001, AOL merged with Time Warner to form AOL Time Warner. AOL officials were used to spending money freely, whereas Time Warner officials were far more conservative. Culturally, individuals from the two companies never truly merged. Reflecting this, in 2003 the AOL name was dropped, returning to Time Warner.

In 1998, Chrysler merged with Daimler-Benz to form DaimlerChrysler. After the new company was created, the former Chrysler officials traveled to meetings in mini-vans and flew economy class, whereas Daimler-Benz officials showed up in Mercedes sedans and flew first class. They tried to iron out their cultural differences for six months before realizing they were at an impasse.

RJ Reynolds merged with Nabisco in 1988 to form RJR Nabisco. The freewheeling lifestyles of Nabisco executives (who threw lavish parties in penthouses and used corporate jets) contrasted sharply with the modest, hard-working, community-minded orientation of the executives from RJ Reynolds. After a bitter feud erupted, the former Nabisco boss fired the RJ Reynolds executives.

As you might imagine, life in companies with incompatible cultures tends to be conflict-ridden and highly disruptive, often resulting in arguments and considerable uncertainty about what to do. In some cases, organizations have even been known to disband because of extreme culture clashes. With this in mind, some experts have called for conducting a cultural due diligence analysis to ensure compatibility before a merger or acquisition is finalized.\(^45\) This involves analyzing the cultures of both organizations in as much depth as typically is used in exploring the financials, the legal implications, and the intellectual property of the companies involved. For some useful guidelines to follow in conducting such an analysis, refer to the summary in Table 14.5. The idea is straightforward: By determining in advance the potential areas in which the companies might experience culture clashes, they may begin to focus on mutual understanding and working together on developing a totally new culture.

**TABLE 14.5 Conducting a Cultural Due Diligence Analysis**

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit the prevailing cultures.</td>
<td>Compare such fundamental aspects of the culture as how compensation is determined, how leaders emerge, what business practices are valued, what the tolerance is for taking risks, and so on.</td>
</tr>
<tr>
<td>Assess intellectual capital—that is, who knows what.</td>
<td>Interview people in both organizations to determine who really knows what to do and how to do it. Knowing this will help the new company put people's talents and skills to best use.</td>
</tr>
<tr>
<td>Involve different people from both companies in designing the new enterprise.</td>
<td>By involving diverse groups (e.g., customers, the sales force, people from different departments) in a discussion of how the new company should operate, a better understanding of each group's culture is likely to emerge.</td>
</tr>
<tr>
<td>Communicate early and often.</td>
<td>Throughout the process, everyone should be completely open and honest about what's going on. This should involve not only top-down communication, but discussions within and between people at all levels of both organizations.</td>
</tr>
</tbody>
</table>

Source: Based on suggestions by Smith, 2005; see Note 45.
Strategic Cultural Change

Sometimes, company officials deliberately decide to change organizational culture so as to help adjust to changing conditions—even positive ones, such as fantastic growth. It’s probably not too surprising that the culture of a small organization has to change as the company grows in size. What once worked for a small company may no longer be successful as it becomes a much larger organization.

This describes the need for organizational culture change at Home Depot. From the time it was founded in 1978, to 2000, Home Depot became an 1,100-store chain with annual revenues of over $50 billion. In the beginning, the company’s culture reflected the personality of one of its co-founders, Bernie Marcus. It had a high-spirited, entrepreneurial way of doing things. Employees were willing to take risks and showed a passionate commitment to customers, colleagues, and the company as a whole. Anything bureaucratic was rejected. In fact, official directives from Atlanta headquarters often went unread as managers spent time on the sales floor with customers.

That’s the culture Robert Nardelli found when he took over as CEO in 2000 (see Figure 14.8). Although this culture served Home Depot very well in the beginning, Nardelli knew that things had to change. As he put it, “What so effectively got Home Depot from zero to $50 billion in sales wasn’t going to get it to go to the next $50 billion.” The main problem, as he saw it, was that store managers were free to do as they wished, but this had to change. Now, he believed, three key things needed to be done: (1) To get the best prices, purchasing needed to become more centralized; (2) to avoid turf wars, managers needed to collaborate with one another; and (3) sales associates needed to be trained so they could better help customers.

As logical as this all seems, Home Depot had a strong culture in which employees had a highly entrepreneurial approach to business. Now, managers had to replace their primarily intuitive approach to making decisions with data-driven decisions based on the market. And, instead of avoiding directives from the home office, store managers now were held accountable for them. As you might imagine, resistance was fierce at first (as you’ll see in Chapter 16, resistance to organizational change is quite common). Many of the top managers left the company during Nardelli’s first year.

Over time, though, Nardelli got others to see the wisdom of his ways and go along with his blueprint for culture change. To get company employees to embrace a new corporate culture, he took several important steps. Among them were the following.

**FIGURE 14.8**

Culture Change at Home Depot

Robert Nardelli has been CEO of Home Depot since 2000. His blueprint for changing organizational culture transformed the chain of over 2,000 stores from one in which an entrepreneurial spirit prevailed (which was fine when the company was smaller) to one that today is far more efficient and data-driven. Employees and customers are highly satisfied and stockholders have been enjoying profits even during difficult economic times.
Measure performance. In the past, management decisions tended not to be based on objective data. Now, reflecting a new cultural priority, people were required to measure things consistently using objectively quantifiable data. Previously, for example, managers pointed to anecdotal reports of customer satisfaction to show that they were doing well. Now, however, they moved to objective questionnaires, which, by the way, showed that the stores were not quite as highly regarded as they thought.

Integrate the new culture. When he became CEO, Nardelli held two-hour conference calls with his top executives (about 15 of them) every Monday morning. These helped people in various posts cooperate with one another and they provided opportunities for accountability: If you said you were going to do something, you were expected to do it by the following week’s meeting.

Build support for culture change. In 2002 and 2003, a series of five-day learning forums were conducted in which some 1,800 district managers and store managers participated in a series of exercises that got them to understand the need for change. Appreciating why new ways of operating were necessary, it was reasoned, would get key people to embrace the new ways of operating.

All signs suggest that the culture of Home Depot has changed, and all for the better. By 2005 it was clear that the company’s focus was on process, hard data, and accountability. The fact that over 80 percent of the company’s 350,000-plus employees complete regular opinion surveys suggests that they have bought into the need to collect objective information and they take it seriously. And importantly, all these changes have paid off on the bottom line: Between 2004 and 2005, sales increased 11.5 percent and earnings increased 16.7 percent.48

Responding to the Internet

There can be no doubt that the Internet is a major influence on organizational culture these days. Compared to traditional brick-and-mortar businesses, where things move slowly and in which people look at change skeptically, the culture of Internet businesses is agile, fast-paced, and receptive to new solutions.49 Information-sharing is key, as such organizations not only accept, but embrace the expansion of communication networks and business relationships across organizational boundaries. When traditional businesses expand into e-commerce (in which case they sometimes are referred to as “click-and-mortar businesses”), changes in their organizational cultures follow suit. We see this, for example, at the investment firm Merrill Lynch, which launched a Web site for trading stock in an effort to compete with brokerage firms such as E*Trade, which do business only online. The organizational culture at this venerable, traditional firm has become far more fast-paced than ever since it adapted to the Internet economy.

Another interesting example of culture change in response to the Internet may be seen at Circuit City. This retail giant specializing in home electronics operates both physical stores (some 600 of them) and a virtual site from which customers can place online orders, much like at any other “e-tail” company (such as Amazon.com). Unlike its competitors, though, it has blended the two by allowing customers to place orders online but get their merchandise right away by picking it up at their nearest retail store. Reflecting their seriousness about good service, they offer a $24 gift card to customers whose purchases are not ready for them within 24 minutes of order confirmation. This policy reflects the company’s growing commitment to customer service and to trying innovative new ways of delivering service to customers.50 Circuit City’s organizational culture long has been considered among those best suited to business success. But opportunities created by the Internet have enabled the company to further develop its ongoing commitment to enhancing the quality of shopping experience for customers.51

To conclude, it is clear that although organizational culture is generally stable, it is not immutable. In fact, culture often evolves in response to outside forces (e.g., changes in workforce composition and information technology) as well as deliberate attempts to change the design of organizations (e.g., through mergers and corporate restructuring). An important aspect of culture that organizations frequently strive to change is the degree to which it approaches problems in creative and innovative ways. With this in mind, we now turn attention to the topics of creativity and innovation in organizations.
Creativity in Individuals and Teams

Although you probably have no difficulty recognizing creativity when you see it, defining creativity can be a bit more challenging. Scientists define creativity as the process by which individuals or teams produce novel and useful ideas. With this definition to guide us, we will explain how the process of creativity operates. Specifically, we begin by describing the components of individual and team creativity and then outline several steps you can take to enhance your own creativity.

Components of Individual and Team Creativity

Creativity in individuals and teams is composed of three basic components—domain-relevant skills, creativity-relevant skills, and intrinsic task motivation.

Domain-Relevant Skills. Whether it’s the manual dexterity required to play the piano or to use a computer keyboard, or the sense of rhythm and knowledge of music needed to conduct an orchestra, specific skills and abilities are necessary to perform these tasks. In fact, any task you might undertake requires certain talents, knowledge, or skills. These skills and abilities that we already have constitute the raw materials needed for creativity to occur. After all, without the capacity to perform a certain task at even a basic level, one has no hope of demonstrating creativity on that task. For example, before he or she can begin to create dramatic automotive stunts, a stunt driver must have the basic skills of dexterity and eye-hand coordination required to drive a car.

Creativity-Relevant Skills. Beyond the basic skills, being creative also requires additional skills—special abilities that help people approach the things they do in novel ways. Specifically, when fostering creativity, it helps to do the following.

- **Break mental sets and take new perspectives.** Creativity is enhanced when people do not limit themselves to old ways of doing things. Restricting oneself to the past can inhibit creativity. Take a fresh look at even the most familiar things. This involves what is known as **divergent thinking**—the process of reframing familiar problems in unique ways, producing multiple or alternative answers from available information. Divergent thinking requires creating unexpected combinations, recognizing associations between things, and transforming information into unexpected forms. Often, the result of divergent thinking is something novel and surprising, something that never before has existed. For some examples of ways to promote divergent thinking, see Table 14.6.

- **Understand complexities.** Instead of making things overly simplistic, don’t be afraid to consider complex ways in which ideas may be interrelated.

- **Keep options open and avoid premature judgments.** Creative people are willing to consider all options. To do so, they consider all the angles and avoid reaching conclusions prematurely. People are particularly good at this when they are new to an organization and, therefore, don’t know enough to accept everything the way it is. With this in mind, some companies actually prefer hiring executives from outside their industry.

- **Follow creativity heuristics.** People sometimes follow certain strategies, known as **creativity heuristics**, to help them come up with creative new ideas. These are rules that people follow to help them approach tasks in novel ways. They may involve such techniques as considering the counterintuitive, and using analogies.

- **Use productive forgetting.** Sometimes, our creativity is inhibited by our becoming fixated on certain ideas that we just can’t seem to get out of our heads. With this in mind, it helps to practice **productive forgetting**—the ability to abandon unproductive ideas and temporarily put aside stubborn problems until new approaches can be considered.

To help individuals and teams become more creative, many organizations are inviting employees to participate in training exercises designed to promote some of these skills. Although the results are not assessed scientifically, many companies have reported successes using these techniques to boost creativity in the workplace.
Intrinsic Task Motivation. The first two components of creativity, domain-relevant skills and creativity-relevant skills, focus on what people are capable of doing. However, the third component, intrinsic task motivation, refers to what people are willing to do. The idea is simple: For someone to be creative, he or she must be interested in performing the task in question. In other words, there must be a high degree of intrinsic task motivation—the motivation to do work because it is interesting, engaging, or challenging in a positive way. Someone who has the capacity to be creative, but who isn’t motivated to do what it takes to produce creative outcomes, certainly wouldn’t be considered creative. People are most likely to be highly creative when they are passionate about their work.

Intrinsic task motivation tends to be high under several conditions. For example, when an individual has a personal interest in the task at hand, he or she will be motivated to perform it—and may go on to do so creatively. However, anyone who doesn’t find a task interesting surely isn’t going to perform it long enough to demonstrate any signs of creativity. Likewise, task motivation will be high whenever an individual perceives that he or she has internal reasons to be performing that task. People who come to believe that they are performing a task for some external reason—such as high pay or pressure from a boss—are unlikely to find the work inherently interesting, in and of itself, and are unlikely to show much creativity when performing it.

Putting it All Together. As you might imagine, the components of creativity are important insofar as they can be used to paint a picture of when people will be creative. In this connection, scientists claim that people will be at their most creative when they have high amounts of all three of the components shown in Figure 14.9.

Specifically, it has been claimed that there is a multiplicative relationship between these three components of creativity. Thus, people will not be creative at all if any one of these components is at zero (i.e., if it is missing completely). After all, you would be unlikely to be creative at a job if you didn’t have the skills needed to do it, regardless of how motivated you were to be creative and how well-practiced you were at coming up with new ideas. Likewise, creativity is expected to be nonexistent if either creativity-relevant skills or motivation were zero. The practical implications are clear: To be as creative as possible, people must strive toward attaining high levels of all three components of creativity.

A Model of the Creative Process

Although it isn’t always obvious to us how people come up with creative ideas, scientists have developed a model that outlines the various stages of the creative process. Specifically, this model, summarized in Figure 14.10, specifies that the process of creativity occurs in the following four stages.

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**TABLE 14.6** Ways of Triggering Divergent Thinking

To encourage divergent thinking, exercises often are conducted in which people are asked open-ended questions to which there are no correct answers. Responses are free to fall outside normal ways of thinking about things. The following are typical examples.

- Besides wearing it, list various uses for a hat.
- Make as many sentences as possible that include the following words: *melon, consider, flower, paper.*
- How could you turn a cardboard box into a temporary tent for use on a camping trip in the woods?
- Think carefully about a stone. Then indicate what you believe to be its hidden meanings.
- Consider the various resources that are available to you when writing a research paper.
- Your car is stuck in a ditch along a deserted road. Using only the things likely to be found in and around the car, how could you summon help?

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**intrinsic task motivation**

The motivation to do work because it is interesting, engaging, or challenging in a positive way.
1. **Prepare to be creative.** Although we often believe that our most creative ideas come “out of thin air,” people are at their most creative when they have made suitable preparations. This involves gathering the appropriate information and concentrating on the problem.

2. **Allow ideas to incubate.** Because ideas take time to develop, creativity can be enhanced by putting the problem out of our conscious minds and allowing it to incubate. If you’ve ever been successful at coming up with a fresh approach to a problem by putting it aside and working on something else, you know what we are describing. The phrase “sleep on it” captures this stage of the process.

3. **Document insight.** At some point during the first two stages, you are likely to come up with a unique idea. However, that idea may be lost if it is not documented. With
this in mind, many people carry small voice recorders that allow them to capture their ideas before they become lost in the maze of other ideas. Likewise, writers keep diaries, artists keep sketch-pads, and songwriters keep tape recorders handy to capture ideas whenever inspiration strikes.

4. **Verify ideas.** Coming up with an idea is one thing, but ensuring that it’s any good is quite another. Assessing the usefulness of an idea requires consciously thinking about it and verifying it, such as by seeing what others have to say about it. In other words, you want to see if those ideas that came to you in a moment of inspiration in the middle of the night still are any good in the morning light.

Knowing about the creative process is particularly useful insofar as it can be applied to promoting individual and team productivity. We will now turn to the process of doing so.

### Promoting Creativity in Organizations

Highly creative people are an asset to any organization. But what exactly do organizations do to promote creativity within their ranks? In general terms, the answer lies in things that we can do as individuals and that organizations can do as a whole. Specifically, two major approaches may be identified.

**Training People to be Creative**

It is true that some people, by nature, are more creative than others. Such individuals are inclined to approach various situations in new ways and tend not to be bogged down by previous ways of doing things. However, there are skills that anyone can develop to become more creative, and firms have sprung up that assist organizations in doing things to promote creative employees (see Figure 14.11). Generally, training people to become more creative involves three steps.

**Encourage Openness to New Ideas.** Many good ideas go undeveloped because they are not in keeping with the current ways of doing things. Becoming more creative requires allowing oneself to be open to new ideas, or as it is often described, thinking outside the box. Some companies do this by sending their employees on thinking expeditions—trips specifically designed to put people in challenging situations in an effort to help them think differently and become more creative. According to the CEO of a company that specializes in running such expeditions for clients, these trips “push people out of their ‘stupid zone’—a place of mental and physical normalcy—so that they can start to think differently,” adding “it’s an accelerated unlearning experience.” For an example of how this has been accomplished at one large company, see Figure 14.12.

![CREATIVITY TRAINING IS BIG BUSINESS](image.png)

**FIGURE 14.11**

Creativity Training Is Big Business

Because organizations prosper when their employees are creative, they sometimes hire outside firms that specialize in helping employees bring out their creativity. This outfit apparently practices what it preaches.

*Source: Used with permission of Randy Glasbergen (www.glasbergen.com).*

“Thank you for calling Creative Business Seminars. If you’d like to become a more creative problem solver, press 1 without touching any part of your telephone.”
Take the Time to Understand the Problem. Meaningful ideas rarely come to those who don’t fully understand the problem at hand. Only when time is taken to examine the many different facets of the issue can people be equipped to develop creative solutions. Consider, for example, BrightHouse, the 17-employee Atlanta-based company that specializes in developing new ideas for its clients (among them have been Coca-Cola, Home Depot, and Georgia-Pacific). For a fee of $500,000, the entire staff devotes a full 10 weeks to the issues their clients have in mind (e.g., how to improve billboard advertising at Turner Field, the home of baseball’s Atlanta Braves).

Promote Divergent Thinking. As we noted earlier, divergent thinking involves taking new approaches to old problems. Teaching people various tactics for divergent thinking allows problems to incubate, setting the stage for creative new ideas to develop. One popular way of developing divergent thinking is known as morphology. A morphological analysis of a problem involves identifying its basic elements and combining them in systematically different ways. (For an example of this approach and for a chance to practice it yourself, see the Individual Exercise on pp. 577–578.)

Developing Creative Work Environments

Thus far, we have identified ways of making people more creative as individuals. In conjunction with these approaches, it also is useful for organizations to take concrete steps to change work environments in ways that bring out people’s creativity. Several such approaches may be identified.

Provide Autonomy. It has been established that people are especially creative when they are given the freedom to control their own behavior—that is, when they have autonomy (see Chapter 7) and are empowered to make decisions (see Chapter 12). At the Japanese video...
game manufacturer Nintendo, creativity is so important that no one considers it odd when designers leave work to go see a movie or a play.

**Provide Exposure to Other Creative People.** It is widely assumed that workers are likely to be creative when they are surrounded by other creative individuals. After all, being around creative people inspires one to be creative oneself. Moreover, one can learn creativity-relevant skills from creative individuals. Although this is true under some circumstances, research suggests that the picture is not so simple. Specifically, the effect of having creative coworkers on a person’s own creativity depends on the extent to which that individual is closely monitored by his or her supervisor.

A researcher conducting a recent study administered questionnaires to a group of employees to assess the extent to which they believed they were surrounded by creative coworkers as well as their beliefs about how closely they were monitored by their supervisors. In addition, supervisors who were familiar with the work of each of these employees were asked to rate the degree of creativity they demonstrated in their work. The results, summarized in Figure 14.13, show that the presence of creative coworkers promoted creativity when supervisory monitoring was low, but that it actually discouraged creativity when supervisory monitoring was high.

These findings may be explained as follows. Workers who feel that they are constantly being watched, evaluated, and controlled by their bosses are reluctant to take the chances

![Figure 14.13](image)

**FIGURE 14.13**

When Do Creative Coworkers Boost Creativity? Research Findings

The effects of having creative coworkers present on a worker’s level of creativity has been found to depend on the degree to which the worker is monitored closely by his or her supervisor. According to a recent study, having creative coworkers boosted creativity when close supervisory monitoring was low (because they provided encouragement and demonstrated creativity-relevant skills). However, having creative coworkers lowered creativity when close supervisory monitoring was high (because workers were so concerned about not doing anything out of the ordinary that they merely “played it safe” by imitating the behavior of others).

Source: Based on data reported by Zhou, 2003; see Note 64.
required to behave in a creative fashion for fear of doing something that is considered inappropriate. As a result, they tend to “play it safe” by simply imitating what others are doing, thereby demonstrating less creativity than they are capable of showing. By contrast, employees who are not closely monitored by their supervisors are likely to be more willing to experiment with new ideas, thereby allowing them to reap the creative benefits of having creative coworkers around them.

**Allow Ideas to Cross-Pollinate.** People who work on just one project run the risk of getting stale, whereas those who work on several are likely to come into contact with different people and have a chance of applying to one project an idea they picked up on another project. This is done all the time at the design firm IDEO. For example, in coming up with an idea about how to make a more comfortable handle for a scooter, designers might use ideas they developed while working on a project involving the design of a more comfortable computer mouse. Because of the upheaval that is bound to result when companies are downsizing, ideas are unlikely to cross-pollinate. It is, therefore, not surprising that creativity tends to be considerably lower at such times.

**Make Jobs Intrinsically Interesting.** Research has shown that people are inclined to be creative when they are intrinsically interested in the work they do. After all, nobody will want to invest the effort it takes to be creative at a task that is uninteresting. With this in mind, creativity can be promoted by enhancing the degree to which tasks are intrinsically interesting to people. The essence of the idea is to turn work into play by making it interesting.

This approach is used routinely at a marketing agency in Richmond, Virginia, appropriately named Play. Instead of coming up with ideas by sitting in boring meetings, staff members are encouraged to play. For example, to aid the process of coming up with a new marketing campaign for the Weather Channel, employees spent time in a corner office developing costumes for superheroes. According to Play’s co-founder Andy Stefanovich, the idea is simple: “When you work in a place that encourages people to be themselves, have fun, and take risks, you fuel and unleash their creativity. The best ideas come from playful minds. And the way to tap into that playfulness is to play—together.”

**Set Your Own Creative Goals.** Being free to do as you wish does not necessarily imply goofing off. In fact, the freedom to make your own decisions pays off most handsomely when people set their own creative goals. For example, the famous inventor Thomas A. Edison set the goal of having a minor invention every 10 days and a major invention every six months. This kept Edison focused on being creative—and, with over 1,000 patents in his name, he clearly did an outstanding job of meeting his goals. We are not talking about strict external pressure to be creative, which rarely results in anything positive. However, creativity is aided when people strive to meet their own difficult goals for achieving creativity.

**Support Creativity at High Organizational Levels.** Nobody in an organization is going to go out of his or her way to be creative if it is not welcomed by the bosses. Supervisors, team leaders, and top executives must encourage employees to take risks if they are to have any chance of being creative. At the same time, this involves accepting any failures that result. This idea is embraced by Livio D. DeSimone, the retired CEO of 3M, one of the most innovative companies in the world. “Failure is not fatal,” he says, adding, “Innovations are simply chance breakthroughs. And when you take a chance, there is always the possibility of a failure.”

**Have Fun!** For people to be motivated to be creative, it helps to have an incentive, and one of the most potent incentives is fun. Indeed, people strive to be creative when they can have fun along the way. It is with this in mind that many companies encourage creative thinking by providing employees with opportunities to have fun on the job. This is especially so at today’s high-tech jobs, where creativity is essential and where long hours at the office are typical.
With this in mind, companies have done lots of interesting things to help people have fun in the workplace (for some suggestions based on things that companies have done, see the left-hand column of Table 14.7). It is important to note, however, that having fun at work must be done in ways that are appropriate and that don’t harm anyone or anything. The suggestions in the right-hand column of Table 14.7 are designed to help avoid this potential problem. Remember, having fun is supposed to promote creativity and not to stifle it by coming at anyone’s expense.

**Promote Diversity.** When companies are staffed by people from diverse ethnic and cultural groups, they are bound to think differently about the situations they face. And, as we noted earlier, divergent thinking is a key element of creativity. Therefore, companies with ethnically diverse workforces are inclined to have cultures that allow creativity to flourish. In fact, some high-tech experts attribute the highly creative ideas emanating from California’s Silicon Valley to the fact that over one-third of its resident engineers and scientists come from countries throughout the world.

Many of today’s most successful multinational corporations attribute their successes to the fact that the adjustments they have made in the course of getting different kinds of people to work together in harmony has had a beneficial, if sometimes unintended by-product—namely, boosting creativity. Although having a diverse population does not ensure creativity, to be sure, it is safe to say that not having one surely can limit creativity.

Today’s multinational corporations are unwilling to be denied this benefit. It is not surprising, therefore, that Edgar van Ommen, chief operating officer of Arabella Sheraton Hotels, follows what he calls the “principle of the United Nations” when it comes to recruiting—hiring the best people in the world, regardless of their nationality. (This discussion raises an interesting question as to whether people in some countries are more creative than those in other countries. For some insight into this matter, see the OB in Diverse World section on p. 569.)

**The Process of Innovation**

Having examined the process of individual and group creativity, we now extend our analysis to situations in which people implement their creative skills for the sake of improving their organizations. This is the process of innovation to which we referred earlier. Specifically, innovation may be defined as the process of making changes to something already established by introducing something new. Put differently, innovation is the successful implementation of creative ideas within an organization.

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**TABLE 14.7 Having Fun at Work: Doing It Right**

<table>
<thead>
<tr>
<th>Ways to Have Fun at Work</th>
<th>Ways Not to Have Fun at Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Play childhood games (e.g., pitching pennies, flying paper airplanes).</td>
<td>Making fun of coworkers or management, (e.g., teasing or mocking them)</td>
</tr>
<tr>
<td>On an associate’s birthday, hide lots of birthday cards around his or her work area.</td>
<td>Telling jokes that are in bad taste (ethnic jokes, off-colored jokes, etc.)</td>
</tr>
<tr>
<td>Post baby pictures of people who work in the company.</td>
<td>Engaging in practical jokes or pranks</td>
</tr>
<tr>
<td>Each month, sponsor a special outing (e.g., to a beach or amusement park).</td>
<td>Doing anything of a sexual nature</td>
</tr>
<tr>
<td>Make time to share the special hobbies that everyone has (quilting, writing poetry, etc.).</td>
<td>Deceiving someone</td>
</tr>
<tr>
<td>Form an all-employee band (no matter how bad everyone may be).</td>
<td>Gambling</td>
</tr>
<tr>
<td>Put up Nerf basketball nets around the office.</td>
<td>Being sarcastic</td>
</tr>
<tr>
<td>Hold fun contests, such as for paintball or spinning hula hoops.</td>
<td>Complaining about the company or its policies</td>
</tr>
</tbody>
</table>

Sources: Based on multiple sources listed in Notes 69 and 70.
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creative ideas within an organization. Thus, whereas creativity involves coming up with new ideas, innovation involves putting them into action. To understand the nature of innovation, it helps to identify the companies considered most innovative and to examine some of the especially innovative things they do. For such an overview, see Table 14.8.75

To understand this process we identify the major forms of innovation, the various targets of innovation and its key components. Then, we review the various stages through which innovation progresses. Before doing this, however, we address the business case for being innovative.

Innovation Pays Off on the Bottom Line

Why be innovative? The underlying assumption is that innovation pays off—that is, that highly innovative companies are more profitable than their less innovative counterparts. Is this really so? Data reveal the answer to be an unqualified “yes.”

Take the top 25 most innovative companies (the first 10 of which are identified in Table 14.8). These companies enjoyed annual profit margin growths of about 3.4 percent, whereas the comparable figure for a Standard & Poors Global 1200 company was only 0.4 percent for the same period. Another financial index tells the same story. Over the past decade, the 25 most innovative companies had annual stock returns of 14.3 percent, which was 3 points higher than the comparison group.76 Although such financial statistics surely result from many factors, it’s clear that innovation is a key contributor to success. Says one consultant, “Innovation is allowing companies to grow faster [and to] have a richer product mix.”77 As you read about some of the innovative things companies are doing in the

OB In a Diverse World

Where in the World Is Entrepreneurial Creativity Promoted?

To be a successful entrepreneur, it helps to live someplace where the culture supports entrepreneurial activity and where people value creative thinking and innovation. Not only is entrepreneurship likely to thrive under such conditions, but the reverse is especially true: The entrepreneurial spirit is likely to be snuffed out whenever creativity and innovation are frowned upon. This applies not only to differences in organizational cultures, but national cultures as well. With this in mind, it is interesting to consider the possibility that various countries differ with respect to how strongly their cultures support creativity and innovation.73

In a recent study, scientists administered a questionnaire to people from Spain, Norway, Sweden, Germany, Italy, and the United States to assess citizens’ perceptions of: (1) their society’s admiration for people who start their own businesses, (2) the extent to which they believe that innovative and creative thinking is good, and (3) the belief that starting one’s own business is a valued career option.74

The results were striking: People from the United States scored considerably higher than their counterparts in the European countries. That is, Americans, as a whole, believed their country was more supportive of entrepreneurial activity and the creativity and innovativeness required to make that activity successful than did people from Sweden, Norway, Spain, Italy, or Germany. Furthermore, the Europeans all scored remarkably similar to one another.

Although these findings are interesting in their own, three important points should be taken into account when interpreting them. First, considerations in addition to the value placed on creativity are also likely to make a difference. In fact, the same study found that knowledge of how to finance, structure, and manage new businesses, and the extent to which the government provides helpful support along the way, also were important considerations. Along these dimensions, people from the two Scandinavian countries ranked highly along with the Americans.

Second, these findings do not mean that American entrepreneurs are destined to be more successful than their European counterparts. Clearly, many different factors are involved in determining the ultimate success of any entrepreneurial venture. Still, the findings reveal that when it comes to nurturing the creative activities that promote entrepreneurial activity, Americans appear to have the edge.

Finally, it is important to recognize that the study considered only a small number of countries. To the extent that entrepreneurs come from all over the world, it would be interesting to extend these findings to people from places such as Asia, Latin America, Africa, and the Middle East.
The remainder of this chapter, you probably will find it easy to understand the positive financial impact of innovative practices.

**Major Forms of Innovation**

Our definition leaves open the possibility that innovation may take several different forms. In fact, it’s possible to differentiate between forms of innovation with respect to three key factors: its impact on existing business, the degree of uncertainty involved, and its sources (for a summary comparison, see Figure 14.14).

**Impact on Existing Business.** Over the years, wireless networking standards have changed to allow increasingly faster transmissions of data through the air. First there was 802.11a, then the faster 802.11b, followed by 802.11g, and still faster networking standards today, such as 802.11n. An improvement of this type is referred to as a **sustaining innovation** because it allows companies to approach their markets in the same manner. It gives existing customers better performance. A sustaining innovation is, quite simply, the proverbial “better mousetrap.”

Innovations of this type may be contrasted with others that bring significant changes to the market. For example, before it introduced its personal computer (PC), IBM was in the market of selling minicomputers, and before that, mainframe computers. The mini disrupted the market for the mainframe and the PC disrupted the market for the mini. As this description

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**TABLE 14.8 The Ten Most Innovative Companies in the World**

The most innovative companies do not get that way by accident. As summarized here, the world’s most innovative companies, as identified by *Business Week* magazine, engage in a variety of practices to help promote innovation.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Innovative Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Apple</td>
<td>Selling songs online (now, well over 1 million downloads) coupled with a cool-looking and easy-to-use MP3 player. The iPod has been more profitable for Apple than its line of computers.</td>
</tr>
<tr>
<td>2</td>
<td>Google</td>
<td>Programmers combine powerful mapping technology with additional user information (e.g., real estate listings) to create useful “mash-ups.”</td>
</tr>
<tr>
<td>3</td>
<td>3M</td>
<td>Scientists inside the company apply independently for “Genius Grants” that give them generous budgets for funding the development of new products.</td>
</tr>
<tr>
<td>4</td>
<td>Toyota</td>
<td>Working with suppliers, Toyota has streamlined the auto manufacturing process, finding new ways to cut the cost of parts and assembly.</td>
</tr>
<tr>
<td>5</td>
<td>Microsoft</td>
<td>Each year, “Hack Day” is held in which software developers are pulled from their routines, coming together for a fun event that relieves pressure and hopefully inspires creativity.</td>
</tr>
<tr>
<td>6</td>
<td>General Electric</td>
<td>Among more traditional bases for evaluation, GE’s 5,000 top managers are rated on innovation-related themes such as “imagination and courage.”</td>
</tr>
<tr>
<td>7</td>
<td>Procter &amp; Gamble</td>
<td>Expanding its innovative capacity through an extensive network of connections outside the company, Procter &amp; Gamble works with scientists, inventors, and suppliers all over the world.</td>
</tr>
<tr>
<td>8</td>
<td>Nokia</td>
<td>Nokia rewards engineers who have at least 10 patents by inducting them into its prestigious “Club 10.”</td>
</tr>
<tr>
<td>9</td>
<td>Starbucks</td>
<td>Some Starbucks baristas go to trendy European coffee houses, where, like anthropologists, they observe trends that they later can put into practice at home in the United States.</td>
</tr>
<tr>
<td>10</td>
<td>IBM</td>
<td>In an “innovation Summit,” some of the world’s most successful innovators share their secrets with 500 IBM officials, who then consider ways of applying these ideas to their own work.</td>
</tr>
</tbody>
</table>

Source: McGregor, 2006; see Note 75.
suggests, an innovation of this type, which completely changes the market, is known as a disruptive innovation. Despite what the name suggests, a disruptive innovation is desirable for the company that produces it—although, of course, it is meant to be highly disruptive to competitors.

Degree of Uncertainty. Another way to categorize innovation is with respect to the degree of uncertainty involved. On some occasions, organizations face conditions in which things have evolved slowly, making it clear what may be done. Moving ahead with innovation isn’t particularly risky because the future is relatively certain. This slow-and-steady approach to innovation is known as incremental innovation. Companies engaging in incremental innovation exploit existing technology and operate under conditions in which uncertainty about the future is low. In other words, you can pretty much figure out what the future will be.

GE’s former CEO, Jack Welch, didn’t favor the incremental approach to innovation. Instead, he was inclined to do the opposite, shocking his competitors by making quantum leaps in innovation. This approach is known as radical innovation. In contrast to companies making incremental innovations, those making radical innovations explore new technology and operate under highly uncertain conditions. Instead of making continuous, linear changes that are slow and steady, radical innovation involves a trajectory that is sporadic and discontinuous. And when it works, the payoffs of radical innovation tend to be huge. For example, radical innovations resulted in the development of Colgate Total, a new kind of toothpaste that unseated Crest as the world’s leading toothpaste brand.

Source of Innovation. Traditionally, the source of innovation is the company itself. This process, known as manufacturer innovation, occurs when an individual or organization develops an innovation for the purpose of selling it. Intel, for example, develops faster computer chips, which it sells to customers demanding more powerful computers.

Although manufacturer innovation has been going on for some time, many of today’s organizations are finding inspiration from the individuals who use their goods or services. This process, known as end-user innovation, is very popular today because users of products provide useful guidance with respect to what is needed.
Targets of Innovation

If innovation involves introducing new changes to activities that already are established, it makes sense to ask: What business activities are the foci of innovation? In general, companies can be innovative with respect to just about anything. However, most innovation falls into one or more of the following seven categories, each of which may be considered a target of innovation.81

- **Product innovation.** Introducing goods that are new or substantially improved (e.g., easier-to-use software).

- **Service innovation.** Introducing services that are new or substantially improved (e.g., faster overnight delivery of packages).

- **Process innovation.** Creating a new or significantly improved production or delivery method (e.g., an easier and more accurate order-taking system for call center operators).

- **Marketing innovation.** Coming up with new and/or improved marketing methods, such as those involving product design or packaging, product promotion, or pricing.82

- **Supply chain innovation.** Developing quicker and more accurate ways to get products from suppliers and to deliver them to customers.

- **Business model innovation.** Revising the basic way business is done (e.g., focusing on high volume and low prices or on offering extremely high-quality goods to exclusive clients).

- **Organizational innovation.** Changing key organizational practices, such as those presented in this book (e.g., how the organization is structured; see Chapter 15).

As you might imagine, companies attempting to be innovative tend to follow more than one of these practices at a time. For example, consider a financial investment firm that is attempting to be more innovative. This may involve developing new financial products (e.g., new money market funds) and services (e.g., new interest-bearing checking accounts) for clients, combining basic financial attributes (e.g., risk-sharing, liquidity, credit) in innovative ways, and finding legal ways to minimize clients’ income tax liabilities. Not only does this require creating new products and services, but also new business models, improved business processes, and so on. In other words, innovation takes many different activities that are likely to be followed in concert.

Conditions Required for Innovation to Occur

Creativity is necessary for innovation to occur, but it is not sufficient. What other factors, then, are required for innovation to occur? As it works out, the answer lies in the same basic components that are essential for creativity to occur, albeit in different ways. These are motivation, resources, and skills.

**Motivation to Innovate.** Just as individual creativity requires that people are motivated to do what it takes to be creative, organizational innovation requires that organizations have the kind of cultures that encourage innovation. When top executives fail to promote a vision of innovation and accept the status quo, change is unlikely. However, at companies such as Microsoft, where leaders (including co-founder Bill Gates) envision innovation as being part of the natural order of things, it is not surprising that innovative efforts are constantly underway.

**Resources to Innovate.** Again, a parallel to individual creativity is in order. Just as people must have certain basic skills to be creative, so too must organizations possess certain basic resources that make innovation possible. For example, to be innovative, at the very least, organizations must have what it takes in terms of human and financial resources. After all, unless the necessary skilled people and deep pockets are available to do what it takes to innovate, stagnation is likely to result.

**Skills to Manage Innovation.** Finally, just as individuals must hone special skills needed to be creative, so too must organizations develop special ways of managing people so as to encourage innovation—that is, skills in innovation management. Most notable in this regard is the matter of balance. Specifically, managers help promote innovation when they show balance with respect to three key matters: goals, reward systems, and time pressure.
Organizational innovation is promoted when goals are linked carefully to the corporate mission. However, they should not be so specific as to tie the hands of those who put them into practice. Innovation is unlikely when such restrictions are imposed.

Reward systems should recognize one’s contributions generously and fairly, but they should not be so specific as to connect literally every move to a bonus or some type of monetary reward. To do so discourages people from taking the kinds of risks that make innovation possible.

Innovation management requires carefully balancing the time pressures under which employees are placed. If pressures are too great, people may be unimaginative and offer routine solutions. By the same token, if pressure is too weak, employees may have no sense of time urgency and believe that the project is too unimportant to warrant any creative attention on their part.

**Stages of the Organizational Innovation Process**

Any CEO who snaps her fingers one day and expects her troops to be innovative on command surely will be in for disappointment. Innovation does not happen all at once. Rather, innovation occurs gradually, through a series of stages. Specifically, scientists have identified five specific stages through which the process of organizational innovation progresses. We now describe each of these (see the summary in Figure 14.15).

**Stage 1: Setting the Agenda.** The first stage of the process of innovation begins by setting the agenda for innovation. This involves creating a mission statement—a document describing an organization’s overall direction and general goals. The component of innovation that is most involved here is motivation (see Chapter 7). After all, the highest-ranking officials of the organization must be highly committed to innovation before they will initiate a push toward it.

**Stage 2: Setting the Stage.** Once an organization’s mission has been established, it is prepared to set the stage for innovation. This may involve narrowing down certain broad goals into more specific tasks and gathering the resources to meet them. It also may involve assessing the environment, both outside and inside the organization, searching for anything that may either support or inhibit later efforts to “break the rules” by being creative. To set

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**FIGURE 14.15**

The Process of Innovation

The innovation process consists of the various components, and follows the steps, shown here.

Source: Adapted from Amabile, 2000; see Note 55.
the stage for innovation most effectively requires using the skills necessary for innovation management as well as full use of the organization’s human and financial resources.

**Stage 3: Producing the Ideas.** This stage of the process involves coming up with new ideas and testing them. It is in this third stage that individual and small group creativity enters the picture. As a result, all of the components of individual creativity mentioned earlier are involved. What’s more, these may combine in important ways with various organizational factors. For example, an individual who has the skills and motivation to be highly creative might find his motivation waning as he attempts to introduce novel new ideas in an organization that is not committed to innovation and that fails to make the necessary resources available. By contrast, the highly innovative nature of an organization may bring out the more creative side of an individual who may not have been especially creative.

**Stage 4: Testing and Implementing the Ideas.** This is the stage where implementation occurs. Now, after an initial group of individuals has developed an idea, other parts of the organization get involved. For example, a prototype product may be developed and tested, and market research may be conducted. In short, input from the many functional areas of the organization is provided. As you might imagine, resources in the task domain are important at this stage. After all, unless adequate amounts of money, personnel, material systems, and information are provided, the idea will be unlikely to survive.

Interestingly, even a good idea and resources are not enough to bring innovation to life. Skills in innovation management are critical because for good ideas to survive it is necessary for them to be “nourished” and supported throughout the organization. Even the best ideas may be “killed off” if people in some parts of the organization are not supportive. For some remarkable examples of this, see Table 14.9. 84 When you see all the great ideas that didn’t quite make it at first, you realize may come to that you are in excellent company if your own ideas are rejected.

**Stage 5: Assessing the Outcome.** The final stage of the process involves assessing the new idea that arises. What happens to that idea depends on the results of the assessment. Three outcomes are possible. If the resulting idea (e.g., a certain product or service) has been a total success, it will be accepted and carried out in the future. This ends the process. Likewise, the process is over if the idea has been a complete failure. In this case, there is no good reason to continue. However, if the new idea shows promise and makes some progress toward the organization’s objectives, but still has problems, the process starts all over again at stage 2.

Although this five-stage process does not account for all innovations you may find in organizations, this general model does a good job of identifying the major steps through which innovation occurs.

<table>
<thead>
<tr>
<th><strong>TABLE 14.9 Is Your Innovative Idea Rejected? If So, You’re in Good Company</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
</tr>
<tr>
<td>Star Wars</td>
</tr>
<tr>
<td>Photocopying process</td>
</tr>
<tr>
<td>Velcro</td>
</tr>
<tr>
<td>Transistor radio</td>
</tr>
<tr>
<td>The Beatles</td>
</tr>
<tr>
<td>Movies with soundtracks</td>
</tr>
</tbody>
</table>

*Source: Based on information reported by Davilla et al., 2005, and Ricchiuto, 1997; see Note 84.*
which most innovations go as they travel along their path from a specific organizational need to a product or service that meets that need. (For some further suggestions on how to promote innovation in an organization, see the How to Do It section below.)

**How to Do It**

**How to Inspire Innovation**

The noted organizational consultant Gary Hamel believes that top management plays an important role when it comes to inspiring innovation in their companies. Radical innovation, he argues, “is no longer an option for big companies—it’s the imperative,” adding that top management’s job is “to build an organization that can continually spawn cool new business concepts.”

Hamel identifies several ways in which managers can go about doing this. Some of these are as follows.

**Set very high expectations.** In Chapter 7 we emphasized that people strive to meet performance goals. When employees are confronted with goals they find to be especially challenging—but still not impossible, of course—they are forced to consider highly novel ways of accomplishing them. At GE Capital, for example, executives are expected to grow annual earnings by at least 20 percent. This leads them to consider more creative approaches and to develop more innovative products than they would if they were required to meet a more modest goal, such as the more typical 5 percent.

**Listen to new voices.** If you ask questions of the same old people, you get the same old answers. But, if you seek the opinions of outsiders free from industry prejudices, they are less likely to say “you can’t do it.” Indeed, Jeff Bezos was not a retailing mogul when he started Amazon.com (see the Case in Point on p. 580), and neither was Ted Turner a seasoned broadcast journalist when he founded CNN. With this in mind, many of today’s most innovative companies are doing things like seeking out the revolutionaries in the company, those whose voices are getting muffled by the hierarchy. They also are paying special attention to newcomers to the company, especially the youngest people. Again, GE Capital provides a good example: Intentionally seeking a youthful perspective, many members of the management team at this well-established financial services firm are hired when under 30.

**Create opportunities for talented employees.** It is widely believed that the best people are always interested in the best opportunities within a company. The most effective organizations capitalize on this by allowing employees to move to other jobs within the company that they find more exciting. Sometimes, this involves making the best use of a company’s human resources by training employees for new positions that enable their organizations to be innovative. For example, IBM has committed to spending $200 million to train 100,000 employees in high-skill jobs, such as those involving Linux systems and middleware (i.e., software that connects two otherwise separate applications, such as linking a database system and a Web server). 87

**Recognize innovation.** Many experts believe that to get people to innovate, it helps to reward them for doing so. This is practiced at South Africa’s First National Bank (FNB), which in 2005 initiated the FNB Innovators competition. This program identifies and rewards employees who think creatively and come up with innovations to ensure efficient and effective systems and procedures. According to Michael Jordaan, CEO of FNB, innovation can either be a new approach to an old process or a totally novel idea. In its first year, 3,000 ideas were entered. The bank’s Cellphone Banking Division won first prize in 2005 for creating an entirely new way to do online banking, netting team members a whopping ZAR 1 million (approximately US$166,668).

It is important to note that the recognition for innovative activity need not always be monetary in nature. Many companies find that simply recognizing employees for their innovations contributes to efforts to keep it going. At 3M, for example, which we have acknowledged several times in this chapter for its innovative ways, a “Hall of Inventors” showcases the work of the firm’s most innovative engineers. The company even has published its own book to celebrate the contributions of its innovators. 89

**Identify a cause.** Most think of Charles Schwab as a well-established, rather traditional investment firm. Although in many ways it is, that’s not how president and co-CEO David Pottruck prefers to think of it. Rather, Pottruck envisions Charles Schwab’s mission in far loftier terms—as guardians of its customers’ financial dreams. By sharing this vision, Pottruck has gotten his employees to recognize that they are doing something important, contributing to a cause that will make a difference in people’s lives. It was such thinking that inspired Schwab employees to take innovative steps, such as offering its services online, and at a sizable discount.

If you are thinking that implementing these guidelines is akin to being innovative about innovation, we are inclined to agree. Indeed, although these suggestions may be challenging to adopt, their considerable impact makes it unwise to ignore them.
Summary and Review of Learning Objectives

1. Define organizational culture and identify its core characteristics and the various functions it serves in organizations.

   Organizational culture is a cognitive framework consisting of attitudes, values, behavioral norms, and expectations shared by organization members. Scientists often think of organizational culture as a set of basic assumptions shared by members of an organization. Organizational culture consists of six core characteristics by which organizations may be differentiated. These are: (1) sensitivity to others, (2) interest in new ideas, (3) willingness to take risks, (4) value placed on people, (5) openness of available communication options, and (6) friendliness and congeniality. Culture plays three major roles in organizations. It provides a sense of identity for its members, it generates commitment to the organization’s mission, and it also serves to clarify and reinforce standards of behavior.

2. Describe the four major forms of organizational culture specified by the competing values framework.

   According to the competing values framework, organizations have one of four different forms of organizational culture. Organizations that have an internal focus and that emphasize stability and control are said to have a hierarchy culture. In this case, effective leaders are good coordinators of projects and emphasize a smooth-running organization, often relying on formal rules and policies to do so. Organizations that are concerned with stability and control, but that are external in their orientation are said to have a market culture. In such organizations, the core values emphasize competitiveness and productivity, focusing on bottom-line results. They do this by carefully identifying the markets in which they are going to compete and then taking a very hard-driving, results-oriented approach to getting things done. Organizations that have a strong internal focus along with a high degree of flexibility and discretion are said to have a clan culture. With goals that are highly shared by members of the organization and high levels of cohesiveness, such organizations feel more like extended families than economic entities. Organizations that emphasize flexibility while also paying attention to external environments are said to have adhocracy cultures. Such cultures are characterized by the recognition that to succeed organizations need to be highly innovative and constantly assessing what the future requires for survival.

3. Identify the factors responsible for creating and transmitting organizational culture and for getting it to change.

   Organizational culture is created by two key factors—the influence of company founders and experiences with the external environment. Organizational culture is transmitted in several ways, including: symbols, slogans, stories, jargon, ceremonies, and statements of principle. Although organizational culture tends to be stable, it is subject to change. Among the factors most responsible for changing organizational culture are the composition of the workforce, mergers and acquisitions, strategic (i.e., planned) organizational changes, and changes necessitated by the Internet.

4. Define creativity and describe the basic components of individual and team creativity.

   Creativity is the process by which individuals or small groups produce novel and useful ideas. Creativity in organizations is based on three fundamental components: domain-relevant skills (basic knowledge needed to perform the task at hand), creativity-relevant skills (special abilities needed to generate creative new ideas), and intrinsic task motivation (people’s willingness to perform creative acts).

5. Describe various approaches to promoting creativity in organizations.

   Creativity in organizations may be promoted by training people to be creative, by encouraging openness to new ideas (e.g., “thinking outside the box”), by taking the time to understand the problem at hand, by developing divergent thinking (e.g., using morphology). It also may be accomplished by developing creative work environments. These are ones in which autonomy is provided, people are exposed to creative
individuals, ideas are permitted to cross-pollinate, jobs are made intrinsically interesting, creative goals are set, creativity is supported within the organization, people have fun, and diversity is promoted.

6. **Identify the basic forms and targets of innovation and the stages of the innovation process.**

Innovation refers to the implementation of creative ideas within organizations. It takes different forms depending on three factors: impact on existing business (sustaining innovation if impact is minor, and disruptive innovation if impact is major), the degree of uncertainty involved (incremental innovation if uncertainty is low, and radical innovation if uncertainty is high), and its sources (manufacturer innovation if ideas come from within, and end-user innovation if ideas come from customers). The innovation process generally proceeds in the following five stages: setting the agenda, setting the stage, producing the ideas, testing and implementing the ideas, and assessing the outcome.

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**Points to Ponder**

**Questions for Review**

1. What is organizational culture, what role does it play in organizations, and how is it created?
2. How does organizational culture influence individuals and organizations, and what makes organizational culture change?
3. What are the three components of individual and team creativity, and what can be done to promote creativity in individuals, work teams, and the whole work environment?
4. What are the basic components of innovation and the stages through which the process of innovation progresses?

**Experiential Questions**

1. Think of an organization in which you have worked. In what ways was its culture transmitted to the people who worked in it and those who remained outside, such as the public?
2. Have you ever worked for an organization whose culture is in need of change? If so, what was the problem? What could have been done to change the culture? What obstacles would have had to be overcome for the changes to be effective?
3. Do you think of yourself as a creative person? What could you do to become more creative when it comes to the work you do?
4. Have you ever worked for a highly innovative company? If so, what was done that made it so innovative? If not, what could have been done to make it more innovative?

**Questions to Analyze**

1. Organizational culture is a “mushy” concept. You can’t see it, yet you know it’s there. What indications are there that organizational culture really does exist?
2. Think of an organization in which you have worked. Was its culture predominantly hierarchical, market, clan, or adhocracy? Was this an effective culture given the nature of the people employed there and the type of work done?
3. Think of an instance in which you were especially creative. Did it involve a task at which you were particularly skillful and that you found interesting (e.g., composing music)? Also, did you use any of the creativity-relevant skills identified here (e.g., divergent thinking, productive forgetting)? In retrospect, what additional skills might you have used to be even more creative in that situation?

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**Experiencing OB**

**Individual Exercise**

**Morphology in Action: Using an Idea Box**

One day, the marketing director of a company that makes laundry hampers was tinkering with ways of boosting sales in a stagnant, mature market. To trigger his imagination, he
thought explicitly about something that most of us take for granted—the basic parameters of laundry hampers. Specifically, he noted that they differed in four basic ways: the materials of which they were made, their shape, their finish, and how they are positioned. For each of these dimensions, he identified five different answers, resulting in the following chart, known as an idea box.

<table>
<thead>
<tr>
<th>Material</th>
<th>Shape</th>
<th>Finish</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Wicker</td>
<td>Square</td>
<td>Flat</td>
<td>Sits on Floor</td>
</tr>
<tr>
<td>2 Plastic</td>
<td>Cylindrical</td>
<td>Painted</td>
<td>On Ceiling</td>
</tr>
<tr>
<td>3 Paper</td>
<td>Rectangle</td>
<td>Clear</td>
<td>On Wall</td>
</tr>
<tr>
<td>4 Metal</td>
<td>Hexagonal</td>
<td>Luminous</td>
<td>Chute to Basement</td>
</tr>
<tr>
<td>5 Net Material</td>
<td>Cube</td>
<td>Neon</td>
<td>On Door</td>
</tr>
</tbody>
</table>


Then, by randomly combining one item from each column—net material, cylindrical shape, painted finish, and positioning on a door—he came up with a completely new idea. It was a laundry hamper made to look like a basketball net: about a yard of netting attached to a cylindrical hoop, hung from a backboard attached to the back of a door.

With some quick math, you can see that this particular idea box generates 3,125 different combinations. Given that this is a far greater number of ideas than you could probably generate without the aid of the idea box, it makes sense to practice generating idea boxes for situations you face in which creative new solutions are required. Nurture your own creativity by following the directions given here.

**Directions**

To generate an idea box, do the following.

1. **Specify the challenge you are facing.** Although you may not be interested in developing exciting new laundry baskets, you must start at the same point indicated in our example—that is, by identifying exactly what you are attempting to do.

2. **Select the parameters of your challenge.** Material, shape, finish, and position were the parameters of the laundry basket problem. What are yours? To help determine if the parameter you are considering is important enough to add, ask yourself if the challenge would still exist without that parameter.

3. **List variations.** Our example shows five variations of each parameter, but feel free to list as many key ones as you can. After all, as your idea box grows larger, it gets increasingly difficult to spot new ideas. (For example, if your idea box had 10 parameters, each of which contained 10 variations, you’d face 10 billion potential combinations to consider—hardly a practical task!)

4. **Try different combinations.** After your idea box is completed, work your way through the box to find some of the most promising combinations. Begin by examining the entire box, and then eventually limit yourself to the most promising combinations.

**Questions for Discussion**

1. Have you ever used the idea box, or something similar to it, before now? If so, how effectively has it worked?
2. For what kinds of challenges is the idea box most useful and least useful?
3. It has been said that generating an idea box is similar to writing a poem. How is this so?
**Group Exercise**

**What Does Your Workspace Communicate About Organizational Culture?**

Newcomers' impressions of an organization’s culture depend greatly on the visual images of that organization they first see. Even without knowing anything about an organization, just seeing the workplace sends a message, intentional or unintentional, regarding what that organization is like. The following exercise is designed to demonstrate this phenomenon.

**Directions**

1. Each member of the class should take several photographs of his or her workplace and select the three that best capture, in his or her own mind, the essence of what that organization is like.
2. One member of the class should identify the company depicted in the photos, describe the type of work it does, and present the photos to the rest of the class.
3. Members of the class should then rate the organization shown in the photos using the following dimensions. Circle the number that comes closest to your feelings about the company shown.

   - conservative : 1 : 2 : 3 : 4 : 5 : 6 : 7 : risky

4. Take turns sharing your individual reactions to each set of photos. Compare the responses of the student whose company pictures were examined with those of the students who were seeing the photos for the first time.
5. Repeat this process using the photos of other students’ organizations.

**Questions for Discussion**

1. For each set of photos examined, how close did the descriptions of members of the class come to the photographers’ assessments of their own companies? In other words, how well did the photos capture the culture of the organization as perceived by an “insider”?
2. As a whole, were people more accurate in assessing the culture of companies with which they were already familiar than those they didn’t already know? If so, why do you think this occurred?
3. Was there more agreement regarding the cultures of organizations in some types of industries (e.g., manufacturing) than in others (e.g., service)? If so, why do you think this occurred?

**Practicing OB**

**Stimulating a Creative Culture**

The president of your organization, a small manufacturing company, has been complaining that sales are stagnant. A key problem, you discover, is that the market for the products your firm makes is fully developed—and frankly, the products themselves are not very exciting. No one seems to care about doing anything innovative. Instead, the employees seem more interested in doing things the way they have always done them.
CASE IN POINT

Amazon.com: Innovation via the “Two-Pizza Team”

Amazon.com widely is considered the world’s best online retail site, the undisputed leader of Internet commerce. Although many e-tailers pulled their plugs during the dot-com bust of the late 1990s, Amazon has become a profitable multibillion-dollar business. The man behind the company’s success is its founder and CEO, Jeff Bezos. And his secret to success, he proudly proclaims, is his willingness to innovate.

His secret to being innovative is simple (to explain, at least)—being willing to take risks. As Bezos put it, “Innovation is part and parcel with going down blind alleys. You can’t have one without the other.” And at Amazon, being innovative is possible because it’s engrained into the culture of the organization. Indeed, the very idea of starting an Internet-based bookstore in 1993 was then as unusual as it is unremarkable today.

To keep innovation going at Amazon, Bezos does several things. First, company officials go out of their way to select people who are interested in being innovative. Those who are unwilling to take risks or who demand stable working environments “flee Amazon.com in hordes,” says Bezos. However, because Amazon is known for its pioneering focus, it also tends to attract individuals who buy into the company’s highly innovative orientation.

Second, to keep ideas percolating, managers form teams that introduce and test ideas constantly. And, because the company’s only presence is Web-based, it’s easy to test ideas without making large investments. For example, it’s possible to expose some customers, but not others, to some features or descriptions or prices. Then, comparisons can be made to provide instant feedback on how people behave.

Within the company’s Seattle headquarters, these teams that test innovations are called “two-pizza teams.” All projects involve only small numbers of people—”small enough that they can be fed on two pizzas,” Bezos explains, explaining that six-person teams constitute a good size for getting things done.

At Amazon, “getting things done” is all about making the best possible experience for customers. Recently, this has taken such popular forms as “inside the book” (which allows guests to the Web site to examine and search through books before purchasing) and various deals that allow customers to have their items shipped free of charge. Both have been wildly successful.

When asked if he considers himself to be an innovator, Bezos readily acknowledges that this description fits him perfectly. “I absolutely think of myself as an innovator,” he says, adding that too often “we learn that we can’t improve things.” However, being innovative means learning that anything can be improved upon. And if Amazon’s success is any indication, this clearly is so.

Questions for Discussion
1. As Amazon.com has grown in size over the years, do you think it has become easier or more difficult for innovation to occur? Or do you think that the company’s size makes no difference in this regard?
2. What role do you think Jeff Bezos has played in instilling the innovative culture at Amazon.com? How, if at all, do you think he is involved in maintaining an innovative culture?
3. Personally, would you like to work at a highly innovative company like Amazon.com, or would you be among those who leave because you prefer a more stable environment?