

Building a culture of innovation - and the company's bottomline

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By **Dr François Nel and Dr Coral Milburn-Curtis**

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CEO:

Vincent Peyrègne

COO:

Thomas Jacob

DIRECTOR OF INSIGHTS:

Dean Roper

INNOVATION RESEARCH GROUP PARTNERS:

Dr François Nel,
Media Innovation Studio
University of Central Lancashire, Preston, United Kingdom

Dr Coral Milburn-Curtis
Green Templeton College
University of Oxford, United Kingdom

IRG Research Assistant:
Jacob Waite, University of Central Lancashire

COPY EDITING:

Cathy Darby, Brian Veseling

DESIGN/LAYOUT:

Snezana Vukmirovic, Ivan Cosic, Plain&Hill

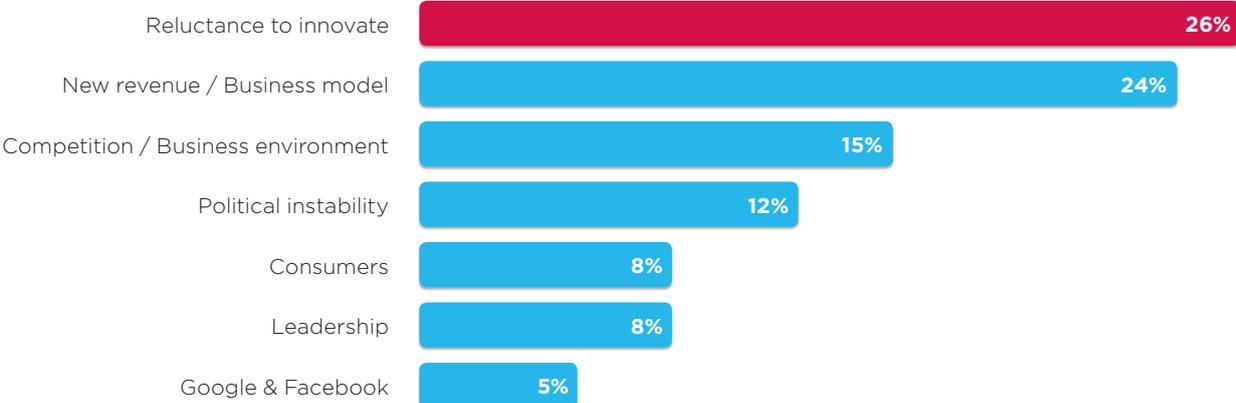
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How news publishers worldwide can - *and do* - build a culture of innovation that drives performance

Reluctance to innovate is the single most important risk to news organisations' future success, according to a ground-breaking study for WAN-IFRA. But global news media executives shouldn't despair - the stand-out finding is that firms with a flourishing innovation culture not only survive, they are four times more likely to be profitable. This excerpt from the World News Publishers Outlook 2017 report breaks down how you, and your company, can know if you have got what it takes - and what areas you need to focus on to build your firm's Innovation Capital.

What is the greatest risk to your organisation's future success?



Source:

World News Publishers Outlook 2017 - Innovation Research Group, & WAN-IFRA



Financial capital and equipment are essential to a company's success. So is talent, or human capital. But arguably a company's most valuable asset is its culture, or Innovation Capital - the processes and practices that enable tangible and intangible assets, such as people, information technologies, brands and patents, to be productive.

Innovation Capital is that one asset competitors cannot easily imitate and, as such, it is the single most important source of sustained competitive advantage. Since what is not measured cannot be managed, it follows that a measure of Innovation Capital is needed for executives and board members to help them plan and monitor the progress of this important intangible asset.

Innovation culture rests on six building blocks, according to researchers Jay Rao and Joseph Weintraub¹. The WAN-IFRA study draws out a radical new seventh: Innovation Role Models, as leaders play a critical role in shaping every aspect of their firms' culture.

The first building block, Success of innovation, can be captured at three levels: external recognition of innovation, such as enterprise paying off and personal satisfaction with individuals' own innovative efforts. The second, Values, drives priorities which reflect how a company spends its time and money.

The willingness to kill off existing products with new or better ones, to energise employees' visions of the future and to cut through red tape make up the third building block of Innovative Behaviour. Building block four is Climate, the tenor of workplace life, which has shown that years of turbulence may be taking its toll on the innovation climate in news media firms. Building block five, Processes, charts the route that an innovation follows from idea generation to selection, to development and ultimately deployment.

Finally the sixth building block, Resources for innovation, comprises three main factors: people, systems and projects, with the study showing that organisations which invest in people, especially "innovation champions", report overall revenues and profits up more than 20 percent over the previous financial year.

1 Rao, Jay and Weintraub, Joe. (2013) Success, Values, Behaviour, Climate, Processes and Resources, MIT Sloan Management Review, Spring 2013, 45(3):30-37.

Indeed, the findings showed such a strong relationship between the success of firms and positive innovation leadership, Innovation Role Models must be considered the new seventh building block critical to a culture of innovation and bottomline success – where those companies are more than four times as likely to be reporting significant increases in revenue during the past 12 months, compared to organisations that do not.

So what does it take to be an Innovation Role Model? Support risk-taking, encourage connection-making, provide explicit resources and decision-making structures and be clear that you expect subordinates to engage in innovative activities.

The full WAN-IFRA study is available at <http://www.wan-ifra.org/reports/2017/09/13/world-news-publishers-outlook-2017>. Its authors, Dr François Nel and Dr Coral Milburn-Curtis of the Innovation Research Group, can help executives conduct an audit of the innovation culture in their companies. More information is available from francois@innovationresearchgroup.com

Company leaders have both the mandate and the mechanisms to nurture organisational cultures where innovation thrives. And this study's results confirm that when they personally rise to the occasion, their companies' fortunes do too.

Building a culture of innovation – and the company’s bottomline

Many of the news media executives in our study recognise the risk their company’s capacity to innovate poses to their future success. And they also appreciate the need to change the organisation’s culture. This invites further questions, such as: What does an Innovation Culture look like? Is there evidence that such an Innovation Culture impacts positively the performance of news media organisation – including financial performance? And, what are the most important levers to pull to effect organisational culture change?

To help find answers, we combed through nearly 80,000 data points drawn from our survey – and analysed them alongside World Bank indicators. We were particularly interested in exploring relationships² – and especially correlations³ – between organisational behaviours, investment priorities, attitudes, activities and performance. We report correlation strength as Pearson’s r values: a perfect correlation is 1.0, meaning a one-to-one relationship between two factors, while a correlation of 0.0 means there is no relationship, and results are totally random. And we only report those relationships that are statistically significant,⁴ meaning that there is less than a 5 percent probability that we got it wrong (probability is reported as “p” values).

A key finding from our analysis is that there is a positive and statistically significant correlation between the variables that indicate the nature of the organisa-

2 In statistical terms, by ‘relationship’ we mean we were looking to see the extent to which one variable behaved in a similar way to another. (The more of the one, the more of the other. Or vice versa.)

3 A perfect correlation is 1.0, meaning a one-to-one relationship between two factors. A correlation of 0.0 means there is no relationship, and results are totally random. Cut off criteria are defined as: $r = .1$ (weak correlation); $r = .3$ (medium) and $r > .5$ (strong correlation).

4 Significance is the probability (p) that the results could have been achieved by chance. We report significances below $p < .05$, $p < .01$ and $p < .001$ respectively, indicating there is less than a 5%, 1% and 0.1% probability of having achieved results by chance.

tion's culture and the indicators of firm performance – including their financial success. In fact, **firms with cultures in which innovators flourish were significantly more likely to report both increases in overall revenues and overall profits.**⁵

Yes, that result is significant, but to some it may not be unexpected. When we asked respondents to predict the single biggest change they would have to make to over the coming year to ensure their company's future success, the most frequent answers echoed this response from a senior manager in Brazil: "Culture." An analyst from Austria was more specific, saying: "Further implementation of innovation culture across the whole organisation, including editorial."

Of course, management researchers⁶ have long pointed out that corporate culture was a much more important driver of radical innovation than capital, labour, government, or national culture.

But just what are the elements of an innovation culture? After examining a wide variety of studies⁷ alongside their own, Jay Rao and Joseph Weintraub (2013)⁸ noted that organisational culture is a multifaceted construct that rests on six building blocks: Resources, Processes, Values, Behaviour, Climate, and Success. From our study, we have also drawn out a seventh, distinct factor: Innovation Role Models. That is because although leaders play a critical role in shaping every aspect of their firm's culture, we contend that innovation leadership deserves specific attention. Our analysis of the data backs up that point of view. Next, we will examine each of the seven building blocks in turn.

5 Correlations between overall profits and Innovation Orientation: Overall Revenues $r=.234$; $p<0.01$. Overall profits $r=.151$; $p<0.05$

6 Tellis, G., Prabhu, J. C., & Chandy, R. K. (2009). Radical innovation across nations: The preeminence of corporate culture. *Journal of Marketing*, 73(1), 3–23.

7 See Christensen, C.M., Anthony, S.D. & Roth, E.A., (2004) *Seeing what's next: Using the Theories of Innovation to Predict Industry Change*. Boston: Harvard Business School Press; Schein, E.H., (2009) *The Corporate Culture Survival Guide*. San Francisco: Jossey-Bass; Hofstede, G. (1998). 'Attitudes, Values and Organizational Culture: Disentangling the Concepts.' *Organizational Studies*, 19 (3): 477-493; Denison, D. (1996) 'What is the difference between organizational culture and organizational climate?' *Academy of Management Review*, 21 (3): 619-654.

8 Rao, J., & Weintraub, J. (2013). How innovative is your company's culture? *MIT Sloan Management Review*, 54(3), 29.

The seven building blocks required to create a sustainable culture of innovation in your company.



BUILDING BLOCK 1 – CLEAR MEASURES OF SUCCESS

Organisations with cultures where innovation thrives have clear measures of success, which can be captured on three levels: External, Enterprise and Personal. Our survey included direct and indirect questions⁹ about each aspect.

External recognition shows how well a company is regarded as being innovative by its customers and competitors. To help us discern that, we asked respondents to rate the extent to which they agreed with the statement, “In dealing with

⁹ In our study, ‘Perceived Success’ represents the extent to which the organisation perceives that its innovation efforts have led to better financial performance than others in the industry; the extent to which innovation projects have helped the organisation to develop new capabilities that they did not have three years ago; and the personal level of perceived success of the individual participant.

competitors, my firm is very often the first business to introduce new products, services, administrative techniques, operating technologies, etc.”

Success on an enterprise level includes the matter of whether an innovation has paid off financially. To understand the degree to which the success of innovation efforts might be related to Overall Financial Performance¹⁰, we asked respondents to rate the extent to which they agreed with statements such as, “Our innovation efforts have led us to better financial performance than others in our industry.”

Further success measures included how satisfied individuals were with the level of participation, nature and pace of their own innovation efforts – and the extent to which they tend to be rewarded for taking risks. To assess that aspect, we asked respondents to rate their level of agreement with the statement, “I am satisfied with my level of participation in our innovation efforts.” Responses to this and others relating to Organisational Success, were aggregated into what we call Perceived Success, and tested against other responses to our survey. The results showed that the extent to which executives perceived their organisation’s innovation efforts to be successful was significantly related to positive changes in a variety of revenue streams – from Website Advertising ($r = .245$; $p < .01$), Social Media Advertising ($r = .166$; $p < .02$), Ecommerce ($r = .206$; $p < .05$) and Website Subscription Revenues ($r = .255$; $p < .0$), to Advertising on Traditional Print and Broadcasting Platforms ($r = .218$; $p < .02$). To further underline the significance of innovation successes for the company’s bottom line, we also found a strong relationship between Perceived Success and the Overall Financial Performance of the firm as measured by positive 12 month changes in overall revenues and overall profits.

BUILDING BLOCK 2 – VALUES

Our second Building Block, inspired by the Rao and Weintraub (2013) study, focuses its lens on Values.¹¹ Values drive priorities and decisions, which in turn reflect how a company spends its time and money. When a German editorial manager noted there was “too little courageous investment in innovation,” he illustrated that the values of a company are less about what the leaders say or what they write in the annual reports than what they do and invest in.

¹⁰ Overall financial performance = Revenue change plus profit change over the past 12 months

¹¹ In our study, Values represents the extent to which an organisation promotes a desire for innovation and a culture in which all stakeholders, as individuals, aspire to be innovative.

Values manifest themselves in how people behave and spend, more than in how they speak. Truly innovative enterprises spend generously on being entrepreneurial, promoting creativity and encouraging continuous learning. Our study shows that firms that score highly on the Values Building Block are significantly more like to prioritise the development of News Business / Products Outside of the Media Sector ($r=.179$; $p<0.05$) and Investment in Training Budgets ($r=.186$; $p < 0.05$). Furthermore, the higher they scored, the greater their reported Organisational Performance.¹² This relationship was strongly correlated, with a Pearson's correlation coefficient of $r = .54$. The statistic was also highly significant, with a probability of less than one in 1,000 that this result could have been achieved by chance.

BUILDING BLOCK 3 – INNOVATION BEHAVIOURS

Innovation Behaviours¹³ describe how people act in the cause of innovation. For leaders, those acts include a willingness to kill off existing products with new or better ones, to energise employees with vivid descriptions of the future, and to cut through red tape. All three behavioural demands pose significant challenges to news media leaders, but respondents to our study appear particularly concerned about being slowed down by organisational red tape. “Good ideas, but it takes too long...,” said an editorial manager from the Netherlands when asked to name the greatest risk to the business. “Do not innovate at the right pace,” said a top manager from Spain. “Speed (geschwindigkeit),” replied a digital publisher from Germany.

For employees, actions in support of innovation include doggedness in overcoming technical roadblocks, “scrounging” resources when budgets are thin, and listening to customers. Not surprisingly, customer insights are top of mind for executives at companies with strong innovation cultures. Our survey shows they are significantly more likely to be prioritising investment in Big Data Strategies and Market Research by Others than their counterparts. Unsurprisingly, the extent to which an organisation exhibits the specific Innovation Behaviours under observation, the greater their Organisational Success ($r =.78$; $p < .001$).

12 Organisational performance, in our study, is defined as financial success plus perceived success.

13 The Behaviours Building Block quantifies the behaviour of an organisation, in terms of the extent to which it monitors customers and competitors, the extent to which it strives for customer satisfaction; and whether it has a deliberate, comprehensive and disciplined approach to innovation.

BUILDING BLOCK 4 – INNOVATION CLIMATE

Climate is the tenor of the workplace life. An Innovative Climate¹⁴ cultivates engagements and enthusiasm, challenges people to take risks within a safe environment, fosters learning and encourages independent thinking.¹⁵

Our survey shows that years of turbulence may be taking its toll on the climate in news media firms. “Societal obsolescence (content, business model, cost structure),” said a commercial manager from France when asked about the greatest risk to the firm. “Mistrusting ourselves,” said a commercial manager from Norway. “Losing my interest,” said an editorial manager from Russia. Leaders at innovating firms clearly recognise the challenge of creating an energetic, safe and creative atmosphere in the workplace – and are reaping the rewards. Not only do our results show significant relationships between positive Innovation Climate and increases in Digital Revenues¹⁶ ($r = .23$; $p < .01$) as well as Diverse Revenues¹⁷; i.e. from sources other than advertising and content sales ($r = .25$; $p < .01$) but Odds Ratio analysis also revealed that organisations which scored highly on the Innovation Climate Building Block were nearly seven times as likely to be reporting booming¹⁸ revenues, compared with the low scorers on this Building Block.

14 Innovation Climate Building Block items included: ‘We have a community that speaks a common language about innovation’; ‘Top management make the decisions that will ensure future success’; ‘Commercial departments take advantage of emerging opportunities’; ‘The IT department supports our company’s objectives’.

15 Rock, D. (2009) Managing with the Brain in Mind. Strategy + Business, No. 56 (Autumn 2009)

16 Digital Revenues: revenues from activities such as mobile apps, social media advertising etc.

17 Diverse Revenues represents the number of activities which an organisation pursues, alongside its main publishing activity.

18 ‘Booming’ revenues refer to 12 month reported increases of more than 20%. ‘Bust’ on the other hand, refers to decreases of more than 20%.

BUILDING BLOCK 5 – INNOVATION PROCESSES

Innovation Processes¹⁹ describes the route that an innovation follows from are they developed – from idea generation, to selection, to development and, ultimately, deployment. These may include the familiar “innovation funnel” used to capture ideas, sift and connect the best to relevant resources before converting them into new products or services. Or the stage-gate systems for reviewing and prioritising projects then building a business case, prototyping and, testing before launch. In our study, we were looking for latent indicators that such processes are in place. Thus, we ask whether respondents feel their organisations are continuously monitoring and responding timeously to shifts in the marketplace – and if their leaders provided the encouragement and structures for innovation to thrive.

Responses to our Innovation Processes items were very uneven. While more than a third of respondents (35 percent) strongly agreed with the statement, “We continually monitor customers and competitors to find new ways to improve customer satisfaction” only about one in 10 of respondents (11 percent) strongly agreed with the statement, “Our leaders model the right innovation behaviours for others to follow.” There is also evidence that Innovation Processes may not be efficient. “The biggest risk [to our organisation’s success] is that senior management (decision making) does not make decisions quickly,” said an editorial manager from Bolivia. His concern is widely shared. Almost half of our respondents (48 percent) are neutral or disagree to some extent with the statement, “In dealing with competitors, my firm is very often the first business to introduce new products, services, administrative techniques, operating technologies, etc.”

The lack of efficient Innovation Processes may be costly. Our analysis shows there is a strong, positive relationship between firms with clearly-defined and articulated Innovation Processes and their overall Organisational Performance ($r = .72$; $p < .001$). Such organisations were also almost three times as likely to be reporting booming revenues, compared with those with less clearly defined Innovation Processes (Odds Ratio = 2.89; $p < .01$).

19 The Innovation Processes Building Block represents the activities which an organisation engages in, in order to pursue their agenda of innovation. These activities include monitoring customer satisfaction, introducing new products, services, administrative techniques, operating technologies, etc

BUILDING BLOCK 6 – RESOURCES

Resources²⁰ comprise three main elements: Systems, Projects, and People. And there's no doubt that Resources matter. For instance, **our study found a highly significant relationship between Resources for Innovation and Organisational Performance ($r = .70$; $p < .001$)**. The extent to which the firms in our survey provided dedicated resources for innovation varied greatly. Only about one in five (19 percent) respondents strongly agreed that, “We have dedicated physical or virtual spaces for the exploration of new opportunities.” However, firms whose participants had confidence in their top management teams were almost twice as likely to be reporting booming revenues, compared with those that did not (Odds Ratio = 1.89; $p < .05$).

Overall, respondents to our study were very bullish about innovation projects. **Nearly seven out of 10 of the executives in our study agree to some extent with the statement, “Our innovation projects have helped our organisation develop new capabilities that we did not have three years ago.”** The most fervent acknowledgement of the dividends of innovation came from Senior Managers, who were significantly more likely to “strongly agree” with this statement than, for example, Editorial Managers.²¹

Investment in talent across all areas, including in the boardroom and especially in technology is a key priority for successful firms in our study. We found that an organisation's approach to investment in people is directly and positively related to its Organisational Performance, that is its financial success, as well as perceived success. The correlation is large and highly significant ($r = .70$; $p < .001$). Furthermore, organisations which prioritise investment in people are almost twice as likely to be reporting that overall revenues and profits have been up more than 20 percent over the previous financial year, compared to those that don't (Odds Ratio = 1.89; $p < .05$).

20 The Resources Building Block focuses on the extent to which an organisation provides physical spaces for innovation, and provides the management infrastructure for innovation decision making.

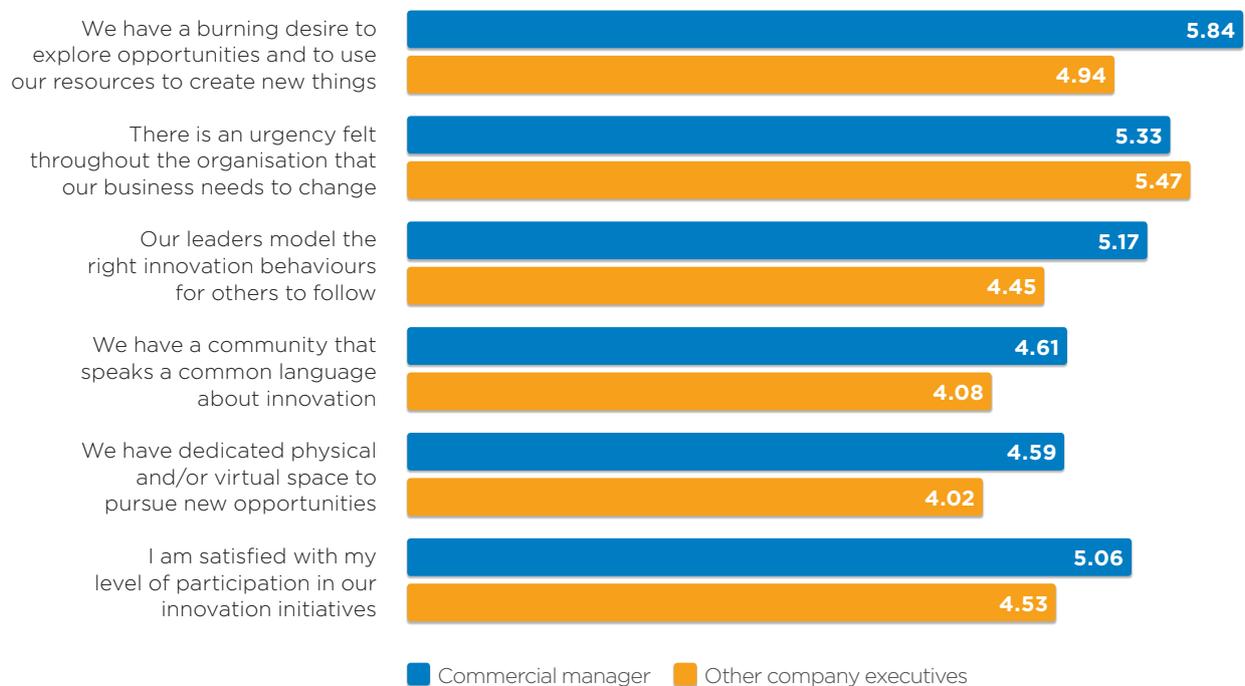
21 Top Managers were significantly more likely to agree with the statement “Our innovation projects have helped our organisation develop new capabilities that we did not have three years ago” when compared with editorial managers. T tests revealed that Top Managers ($M = 5.38$, $SD = 1.66$) scored this question significantly more highly than Editorial Managers ($M = 4.71$; $SD = 1.86$). The t test result is $t(144) = 2.241$; $p < .05$. Similar results were found when the attitudes of Senior Managers were compared with Commercial Managers and Technology Managers

US management professors Jay Rao and Joseph Weintraub (2013) believe that, of all the resources required to foster an innovation culture, people – especially “innovation champions” – are the most critical, because they have a powerful impact on the organisation’s values and climate. Our study findings supported that view. It also showed such a strong relationship between the success of firms and positive innovation leadership that we decided that Innovation Role Models warranted being considered an independent building block of Organisational Culture.

BUILDING BLOCK 7 – INNOVATION ROLE MODELS.

Firstly, we noted that Innovation Role Models were scarce across the firms in our survey. When asked, only 14 percent of our respondents strongly agreed with the statement, “Our leaders model the right innovative behaviours for others to follow” (Q18). This finding is even more startling when we consider that the bulk of the respondents are themselves leaders who are in the position to be Innovation Role Models.

(Q18) Commercial vs other company executives



Source:

World News Publishers Outlook 2017 – Innovation Research Group, & WAN-IFRA

When we explored our data to see what connections there might be between positive Innovative Role Models and Organisational Performance²² we were wide-eyed. **The extent to which role models impact the bottom line of firms in our study is much more significant than any of the other components of an innovative culture. In fact, those companies with Innovation Role Models are more than four times as likely to be reporting significant increases in revenues during the past 12 months, compared with organisations that do not. (Odds Ratio = 4.3)**

What is an Innovation Role Model?

Whatever else, a role model serves as an example and needs to be visible. But there's much more to being an effective role model than that. "Role models embody an authentic and purposeful set of values (2) and demonstrate those values through their actions (3)," says former banker turned venture capitalist Warren Doss. Innovation Role Models may not be risk-takers themselves, but they will grasp the importance of risk and actively support risk-taking in their organisation (3.1). They may not be active connection brokers themselves, but they will understand, look for and encourage connection-making (3.2). They also provide explicit resources for innovation, such as virtual or physical spaces and clear decision-making structures. And they also explicitly expect subordinates to engage in innovative activities. Effective Innovation Role Models tirelessly advocate for innovation – they do so often, at every occasion. The adage "Do as I say, not as I do" gets turned on its head by the Innovation Role Model. In the presence of powerful, authentic role models, members of an organisation will model actions – and utterances. They will seek to "do what the role model does – and says."

Company leaders have both the mandate and the mechanisms to nurture organisational cultures where innovation thrives – and our study results confirm that when they personally rise to the occasion, their companies' fortunes do too.

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²² Organisational success represents overall revenue growth and the extent to which respondents perceive their firm to be more successful than their peers.



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Its authors Dr François Nel and Dr Coral Milburn-Curtis of the Innovation Research Group can help forward-thinking executives and consultants charged with driving business performance to audit the innovation culture in their companies. More information is available from fnel@wan-ifra.org or francois@innovationresearchgroup.com