

# From Inclusivity to Innovation – A Journey of Leadership and Culture



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## *Problem of practice:*

*An innovative organization is likely to have a competitive edge. To become an innovative organization, culture and leadership are crucial factors, but also hard to pin down. What type of organizational culture can lead to innovation? Which of the several possible leadership styles can foster innovation in your team and in the broader organization? In our essay, we synthesize two research studies – the first study by Li and team pinpoints how a culture of inclusion helps to stimulate innovation – both radical and incremental.<sup>1</sup> The second study by Bracht and team helps to identify which forms of leadership are best for fostering innovative behavior among your team members and followers<sup>2</sup>*

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<sup>1</sup> The article “From Inclusive Climate to Organizational Innovation: Examining Internal and External Enablers for Knowledge Management Capacity,” by Yixuan Li et al. featured in *Journal of Applied Psychology* 107, no. 12 (2022): 2285–2305 talks about the importance of having an inclusive climate.

## Amplifying Innovation Gains

An organization's employee base can exhibit diversity of many kinds, including age, gender, work experience and regional or ethnic background. But this diversity needs to be harnessed in order to develop a culture of innovation. The research by Li and team suggests that the key to harnessing your diversity is having an inclusive climate. It is important to note that inclusion is not the same as having fair and equitable HR policies in hiring, promotion and pay. Instead, an inclusive climate encourages employees to share their unique viewpoints based on a strong sense of belonging to the organization. The research found that when you combine an inclusive climate with a diverse workforce, it helps the organization harness diverse sources of knowledge, and combine them in novel ways, resulting in innovative solutions. The question then becomes: How to develop an inclusive climate and what kind of diversity matters more for innovation?

One company that has worked at establishing a culture of inclusivity is Adobe, a US-based technology company that specializes in developing and selling software and services for digital content creation, and editing. Adobe has instituted a program called '[Adobe For All](#)' that specifies and encourages several behaviors that are designed to hear and incorporate diverse voices in decision-making.<sup>3</sup> This program has five action areas, with evocative names such as 'Appreciate the unique', 'Amplify others', and 'Enhance the team: Consider what a new addition will bring that's different'. An example of a behavior Adobe encourages under 'Amplify others' is calling out and preventing interruptions during meetings – "I don't think Chris had a chance to finish explaining her idea." With such behaviors specified, tracked and sought for in its quest for [manager](#)

The research by Li and team discovered that the other factor in the equation – diversity – can amplify the power of an inclusive culture. More specifically, diversity based on age of employees, as well as their background was more significantly associated with innovation. Going deeper, they tested the power of diversity and inclusion on teams that pursued radical or disruptive innovation, as well as those teams that pursued more incremental innovation, building on existing products and services. In both cases, diversity and inclusion were significant drivers of innovation. Again, Adobe has made conscious efforts to [grow diversity](#) by making it the job of all hiring managers, not just corporate HR.<sup>5</sup> An interesting contrast is the case of [Google](#), where the Senior VP of People Operations admitted in 2014, "Google was not where we want to be in terms of diversity ..." <sup>6</sup> Since this public admission, Google has struggled mightily, and can now point to several years of [improving diversity data](#) of traditionally underrepresented minorities.<sup>7</sup> In India, the conglomerate [Godrej](#) group has been pursuing diversity and inclusion through training workshops, and special onboarding sessions; for Godrej believes that "passionate, rounded individuals with diverse interests make better employees".<sup>8</sup>

## External Markets & Internal Leaders

While leadership qualities have long been studied, as someone responsible for innovation in the organization, you might ask – are there any specific leadership characteristics that are critical to develop innovation in employees? Another question relates to your industry context: Shouldn't innovation, and leadership styles that foster innovation vary based on your market realities?

### Inclusive Workplaces

As per a corporate racial equity tracker report:

- Workforce diversity data disclosure increased from 86% to 91% in 2022
- Racial/ethnic pay equity analysis disclosure increased from 34% to 45%
- Only 23% of US firms disclose diversity targets for hiring, workforce composition, promotion, or retention by race/ethnicity

In order to take any company on path of innovation, there is a need to put in time and commitment. One also has been to conscious of the external factors at play to ensure that the company is able to adjust as per the external environment

### Seniors Say

As per a McKinsey survey

- More than 70% percent of the senior executives say that innovation will be at least one of the top three drivers of growth for their companies in the next three to five years
- 94% of senior executives say that people and corporate culture are the most important drivers of innovation

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The research by Li and team found that if a business faced high levels of uncertainty – then the organization needed to develop a capability of scanning the external environment. This vigilance can help businesses seize emerging opportunities and shield against nascent threats. This form of innovation, and the associated capability, is less important if your business faces low to moderate levels of uncertainty.

Adapting to external markets, establishing practices and procedures that enhance diversity and inclusion – are all capabilities that require a certain kind of executive leadership. The research by Bracht and team focused on this aspect and found two clusters of qualities that are crucial. The first cluster – ‘identity leadership’ – helps create a strong sense of shared identity within a team. Such a leader may use a number of tools to indicate that belonging to a particular group is attractive – or innovative in our context. A fabled example is how Steve Jobs, when developing the Macintosh, gathered up a crack group of engineers under one roof, separate from the rest of Apple. So strong was the group's association with the Macintosh, they hoisted a pirate flag from their roof.<sup>9</sup> While this is an extreme example, leaders seeking to foster a shared

identity need to use these building blocks: a) walk the talk – such leaders need to act as a role model for creativity; b) they need to promote the creative style of the group and c) embed the group's shared purpose of innovation in some material structures. It doesn't have to be a pirate flag – it could be as simple as a brand logo that brings the whole organization together. Steve Jobs – upon his return to Apple in the late 1990s invested \$100 million in an ad campaign called ‘Think Different’ – it spoke not only to the creative customers of Apple, but also the employees who were creative powerhouses in their own right.<sup>10</sup>

The second cluster of leadership qualities that enhances innovation is the Leader-Membership-Exchange or LMX for short. Such leaders establish mutual trust, respect, loyalty, and professionalism. How does this foster innovation? The research by Bracht and team suggests that such a leadership style encourages employees to offer ideas, feedback, and admit their mistakes without fear of negative consequences; all of which are essential for innovation. A prime example of such a leader would be [Lego's Jørgen Vig Knudstorp](#), who became its CEO in 2004, a time when the toy company was losing \$1 million a day, having diversified into non-core products such as children's clothing.<sup>11</sup> Knudstorp focussed on a few key factors—building team trust and support, focussing on key goals and involving the customers in [co-creating innovative products](#).<sup>12</sup> Under Knudstorp's leadership, Lego turned its losses into profits, which rose to five times its previous peak.

The above leadership styles – identity and LMX – cut across cultures and industry contexts in fostering innovative behaviour across employees. But the reverse is also true. Leaders who create a toxic work environment – can inhibit innovation and company performance. [Byju's](#) in the EdTech space, was once considered among India's most valued startups but by 2023 was mired in controversy with allegations of untenable working hours, unhealthy hierarchy system and job insecurities.<sup>13</sup>

## The Five Elements

As we laid out, to build an ‘innovation muscle’ at



an organization level, companies need to focus on five elements: diversity (especially related to age and geographic background), inclusive behaviors (demonstrated by managers), and executive leadership styles of 'identity leadership', and 'leader-membership-exchange'. And finally, depending upon market conditions, a dynamic capability of environment scanning can also help fuel innovation. To implement these five elements requires careful planning as well as incremental change across the organization – from hiring for diversity, onboarding, training and tracking inclusive managerial practices, as well as coaching the next generation of leaders. A sense of the investment needed comes from the example of Anil Naik, who grew the engineering group Larsen & Toubro Limited (L&T), of India from \$0.6 billion in 2020 to \$46 billion in 2023. Not only did Naik exemplify

the LMX characteristics himself, but he also took care to cultivate future leaders in L&T through a detailed, seven-step process.<sup>14</sup> This leadership development process has demanded financial resources for world-class formal training, as well as time of top management for informal mentoring. Such was Naik's success in making L&T future ready, that in 2018 he was appointed by the government of India to chair the prestigious National Skill Development Corporation.<sup>15</sup> Every organization has strengths and weakness in innovation-oriented leadership and culture. The five elements we have defined here can enable organizations to better focus on developing an innovation muscle, which will result in sustainable gains in competitiveness. While the effort is substantial, as the saying goes – “No pain, no gain”.

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*If you have some inputs you would like to share, you can also reach out to us*  
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