DEMYSTIFYING INNOVATION CULTURE EFFORTS

12 Strategies for Organizational Change Practitioners & Executive Leadership

EXECUTIVE SUMMARY

Speaking the First Truth:
Avoiding the CliffsNotes Trap

This paper is a resource for senior leaders who are interested in differentiating their organization from their competitive class with respect to sustained new value creation from innovation. Based on 60 years of research and practical experimentation, we share the best thinking about core areas of organizational design that need to be attended to in order to drive a step change for innovation culture. As we analyze successful efforts across multiple industries and organizational types, we see a dozen or so interdependent strategic action areas which cannot be ignored. These areas have overlap and form a mutually supportive web which will sustain innovation culture as a permanent artifact and lasting legacy of an executive leadership team desiring to build a more flexible, responsive enterprise. When well executed, these 12 interlocking strategies create the kind of organization that will adapt, overcome and gain advantage of variability in market dynamics more rapidly than the competitive set.

The paper itself is an executive summary. It is unfortunate that for most currently seated senior leaders, there has been little opportunity for in-depth and integrated education to help untangle truth, hypothesis and fiction with respect to building sustained innovation culture for organizations that have matured past the time we describe as the "founder energy stage." Previous writers have focused on subsets of the innovative organization landscape, with a bias toward the most commonly desired outputs of innovation culture: new, value capturing products and services. In this paper, we reach beyond the short term win to build an organizational ecosystem that sustains short term wins year on year, decade on decade.

If building this kind of organization were a simple thing, we'd all be doing it, and a one page executive reminder might suffice as a way of reviewing our efforts. Less than a decade ago, the word "innovation" was not so prevalent in business literature, organizational "values lists" or executive communications. Now it permeates every communication possible. It has become too easy to talk oneself into a promise of delivery that one cannot fully execute on. This paper will guide you away from that danger. But there is no shortcut. You must take the time to learn, busy as you are. Read the paper in its entirety, or listen to the podcast we will release soon after publishing. Our frank executive summary: As a leader in your organization, a choice to not prioritize this learning will be applauded only by your competitors.

Stephen Covey was right. Take a break. Sharpen your saw. It will be fun. And you'll leave the lasting legacy of a Level-5 leader. The people you serve deserve this, and you will be quite pleased with the secondary benefits that you create for the people around you. Growing innovative organizations also grows great problem solvers. Great problem solvers in your organization will take those skills home to their families and communities. There is a tremendous win-win relationship between a commercial enterprise desiring a culture of sustained innovation and the human beings that make up that enterprise. As a senior leader, you are the creator of that win-win. Read how, beginning on the next page.

Respectfully and with hopes for your positive future,

The Partners at New & Improved

EXECUTIVE REPORT

Demystifying Innovation Culture Efforts

12 Strategies for Organizational Change Practitioners & Executive Leadership

CULTURE CHANGE

Speaking the Second Truth:
Many Innovation Culture Efforts Fail

Building a culture that is receptive to ongoing innovation and change is the new (or noisier) senior leader directive. Although there is clear research available describing success factors - more than 60 peer reviewed years' worth - there has been no clear roadmap for designing a foolproof strategy that is custom fit to each unique organization. As a result of this gap, many innovation culture efforts fail or do not deliver to expectations. This paper seeks to change that and demystify innovation culture efforts once and for all. (Yes, we like to think big.)

▶ **Four important questions will be explored:**

1. What is a senior leader's responsibility in the creation and maintenance of a culture of innovation?
2. Which aspects of building an innovation culture can be delegated and which aspects must be directly acted upon by those in senior leadership positions?
3. What degree of involvement does the *most* senior executive need to have?
4. What are the strategic areas that need focused effort in order to grow a culture that continually innovates?

Overview of the Problem – why so much failure?

It seems that most boards of directors, senior teams, and shareholders are now fully on board with the *idea* that the quality of the innovation culture in an organization is *the* driver of its future value. Yet, there is significant confusion as to what strategies work best and which ones will provide the strongest chance of producing a *sustained* culture of innovation. In fact, well-researched and proven pathways are known. However, like many things in life, organizations tend to invest in only the perceived exact minimum amount of effort needed - and no more - to cross into what could be defined as a productive innovation culture. This frugality of effort often leaves necessary strategies behind, and those ignored strategies sit as hidden obstacles in the middle of the path toward a more innovative culture. Yes, you may have much of what is needed, but surprisingly common key oversights easily stop forward progress and frustrate those who would really enjoy working

for an innovative company (not just one that says it is).

Chances are that in your organization, a few key strategic action areas are being ignored or unintentionally minimized, and a few strategies that may be seen as magic bullets are pursued with too much effort (we call these "dangerous obsessions"), doomed to mediocrity because the complete innovation ecosystem is not in place. But don't be discouraged - there is a way you can improve your effort that isn't even overly complicated. It mostly requires a shift of intention and attention. And in many cases, not new activity as much as modifying current activity in subtle ways. The 12 Strategic Action Areas provide a more mature focus for your effort, and some key leader behaviors will arise from improved and overt intention.

> *Intention drives attention. Attention drives behavior. Choose your intention wisely.*

The interest in creative thinking, creativity, and innovation that we currently see in the general business climate is not a new thing, but the *intensity* of interest is. For about 60 years there has been a steady, concerted effort to understand what works and what doesn't in terms of developing more creative individuals, more innovative business units, and leading-edge companies. While each organization must find a unique pathway for itself as it implements the core strategies that drive an innovation culture, **the core strategies do not change**. Optimal effort within these core innovation strategies is the real variable that will differentiate the winners from the losers. In fact, innovation has always been the key to long term success; innovation in all aspects of the enterprise, not just new offerings, is essential. Yes, of course innovative new offerings are needed, but also innovative new business models, manufacturing techniques, hiring practices, and the like. All are key opportunities in the competitive landscape. Constantly seeking out ways to keep all business processes on their creative toes is what makes the difference. **Ask the question:** *"How might we increase the odds that our organization out-innovates those in the sectors we want to succeed in?"*

Q1: What is a senior leader's responsibility in the creation and maintenance of a culture of innovation?

A: Within mature organizations there is an opportunity for senior leaders to build an organizational culture that steadily out-innovates competitors on all levels. Rather than waiting and hoping for the serendipitous improvement, the lucky intellectual property, or the inattentiveness of a competitor's leaders – senior leaders can spearhead efforts to systematically build organizational systems, climate, and processes for which *they* can be held accountable. Organizations derived from this type of executive effort are more likely to **outperform for the long-haul** the competition that invests minimally in building innovation capacity - and pushes accountability for doing so onto others only.

Q2: Which aspects of building an innovation culture can be delegated and which aspects must be directly acted upon by those in senior leadership positions?

A: Change is difficult for the human beings that "belong" to organizations. Constant change, which is what one sees in an innovation culture, can be quite disconcerting. In an attempt to reduce distractions, **organizational immune systems** will often align to prevent the creation of a steady-state innovation culture. Because of this, a systemic approach must be taken in order to guarantee success. And, it is the charge of an organization's senior-most executives. The Senior Leadership Team (SLT) cannot delegate all responsibility for building innovation culture to their reports. This means that **the most senior executive must actively engage, equip, monitor, and hold accountable the rest of the organization**. In fully engaged senior leadership teams, "Innovation Culture" is a standing agenda item.

Avoid delegating responsibility for innovation strategies to a small group, one or two business units, or a single C-level individual. For an enterprise-level innovation culture to be positively sustained, steady efforts to improve creative thinking, collaborative interaction and innovation, in both processes and offerings, must be undertaken on an all-encompassing scale.

Q3: What degree of involvement does the most senior executive need to have?

A: Unfortunately over the last decade, as the word "innovation" began to appear in corporate value systems, executive communications, and brand taglines, there has developed a degree of **cynicism about the reality of organizational intent in this area**. Many individual contributors – who want to leverage their creative thinking in collaboration with colleagues and produce innovative results for the whole organization – have been stymied by a lack of true attention from senior leadership and mid-level management.

In our practice, we often see a dynamic where the tagline is present, the standard organizational values system includes an *intention* to innovate, and the senior-most executive is regularly speaking to the need for innovation in his or her executive communications, both internally and externally. But something remains amiss. To remedy this, **the most senior executive must be actively engaged in holding each of her or his direct reports accountable** to innovation fostering actions and behaviors while, at the same time, remaining vigilant for dangerous obsessions. Every executive function has an ability to improve its contribution to a sustained innovation culture. But it is easy to turf that responsibility if the boss is not holding everyone accountable to doing so.

If a senior leader has the intention for an organization-wide culture that innovates and she is preaching all the right things – why isn't that enough?

First, there is a typical call to action. Senior leader says:

"We need to ramp-up our innovation capacity."

Then, 3 common first moves fall flat from lack of systemic support...

1. **We'll make it HR's responsibility and <u>Train People</u>**: The belief is that our people just need to know how to think more creatively and then more innovation will happen. While skills development is certainly a very necessary piece of the picture, training – when unsupported by shifts in accountability metrics and corporate culture – can readily create a belief that

innovation is just the latest flavor of the month trickling its way down from HR or the C-suite. The number of times that we have heard an individual state, "This training is the best I've ever attended, but will my *boss* get this training?" is uncountable. While excited by what they are learning, participants are immediately aware of **looming organizational impediments to applying what they learned on the job.** On a fundamental level, they understand that the only way to fully implement the new practices that they've learned is on a full-scale basis.

2. **We'll make it R&D's responsibility and they'll jumpstart by <u>Outsourcing a Part of the Pipeline</u>**: The challenge being experienced is that the product pipeline is stale. The solution is often to engage with a firm specializing in new product development to reinvigorate the pipeline. Again, often greeted with the excitement and fanfare of any deus ex machina, there are well publicized rapid successes, followed by a steadily diminishing interest. The glory goes to the consultant, and, while a fun value producing project, no fundamentals were changed in the permanent organization. Hiring a creative product development firm to come in and help shake things up from time to time can be a great strategy when it is a component of a more complete system for innovation, but in and of itself it is not a sustainable practice.

3. **We'll make it Technology's responsibility and <u>Build an Idea Repository:</u>** The hypothesis is that our people have lots of ideas; we *just* need a way to collect them. Effort is put forth to build or source some type of IT enabled "Idea System." It's highly promoted to the organization as evidence of an organizational-wide focus on innovation. It feels sexy and current. Employees get excited, and typically ideas come flooding in, but then… nothing happens. Employees end up frustrated and quickly abandon the effort. *Creative Collaboration* systems work when an infrastructure has been built to

> **CLIENT CASE:**
> **Previously Disengaged Senior Leader + Dangerous Obsession = Expensive Lesson**
>
> At the time of this writing, we are advising a major global client on how to disband the effort it has made over the last two years to gain value via an IT enabled idea capture system. This effort was initially launched with much fanfare, positive intent, and optimism but now it is quietly disappearing (they don't even think the majority of employees will notice). Why did it fail? Ultimately it was an effort created in vacuum. It is being replaced with a robust innovation strategy that puts effort into the 12 Key Strategies outlined here. They have already seen a positive impact to the organization in doing so and over the next two years they should see a substantial impact to the business as a whole.

govern and provide useful feedback on a regular basis. Unfortunately, this key step is often overlooked, making this first move **the most damaging** as there is no positive value returned to the organization.

Once these mistakes (and others like them) are made, future efforts to produce an innovation culture are met with a high degree of cynicism from within the ranks.

Bottom-line: It is the senior leader's responsibility to inspire the organization – <u>and hold it accountable</u> – to innovate across every element of its organizational structure and value stream. *Everyone* is responsible for incremental improvement and being mentally prepared to

see and support the "next big idea" in their area of value provision, but the change must stem from the top.

Q4: What are the strategic areas that need steady focused effort in order to grow a culture that continually innovates?

A: The Four Building Blocks of the 12 Strategies *(stay patient and curious – you'll learn the 12 Strategies soon.)*

Previous researchers and authors accurately point to four strategic focus areas that must be impacted in order to strengthen innovation in an organization:
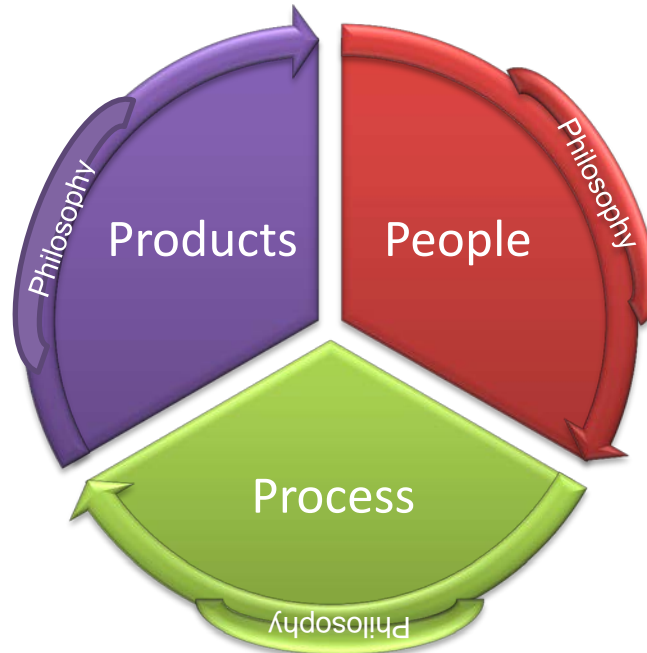
The obvious first building block is to pay attention to the *Product* or offering that generates the organization's revenue. As organizations move beyond their initial founding product or offering, they grow to understand that they must focus on a second area to garner new value*: Processes* that increase the likelihood that another new value-creating offering will be found. Soon organizations understand that the quality of the creative collaboration of its human element, its *People*, will determine how well processes are utilized and offerings created, marketed, sold and supported. Recruitment, training, and support for collaboration among people become core focus areas.

The fourth and final area we identify is *Philosophy*. A seminal researcher in the field, Mel Rhodes, used the term "press" to describe the things that push on an organization and its individual members, influencing their behavior. Building on Rhodes' work, we think that philosophy is the fundamental fourth support. We often have little ability to impact what presses in on us from the outside, but our philosophy is in our control, and it determines, in large part, our reaction to external pressures. If an organization's philosophy is one of building a sustained innovation culture and if that philosophy is reinforced and deeply embedded in the organization's culture, we see things like these emerging:

1. Modifications to the physical spaces within the organization to support collaboration and creative thinking.

2. Steady attention to the emotional environment of the individuals in response to changes in the organization, as well as to the broader milieu in which employees live.
3. Increased understanding of the need to create work that is meaningful at the personal level, and the building of structures that support fulfilling that need.
4. Support for the strengthening of emotional intelligence such that stress-creating external pressures do not erode workplace creative effectiveness.

Our experience is that with the *right* organizational philosophy, the behaviors that support a culture and environment of innovation will surface quite naturally.

So, as senior executives, it is our responsibility to pay attention to four primary drivers: Product (or offering), Process, People and Philosophy (or Press). Unfortunately, in the short term, the market rewards us for only one: Product. More and more however, analysts, boards, and shareholders with long-term views are insisting that fundamentally sound organizations be built and maintained, rather than solely grown through merger or milked through sale. Additionally, the higher quality human capital is making a decision to move toward those organizations that are acting on innovation-fostering philosophies in a steady and discernible way, and away from those which do not. HR departments around the world are currently obsessing about "engagement metrics" and

> **Mergers, Acquisition and Innovation**
> M&A as a prime growth strategy can work, but only if the organization is constantly innovating in the area of improving integration. Otherwise, the myriad of integration challenges are slowly and poorly solved, and the expected value potential of the M&A is slow to be realized, or never realized at all.

the costs associated with low engagement. They're looking for a fix. Choosing to build an innovation culture attracts human capital and increases both engagement and net promoter scores.
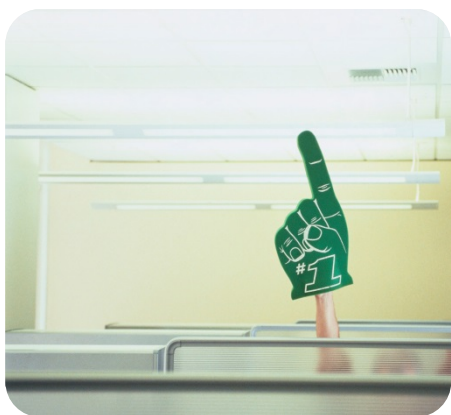
"There is no such thing as a grown-up. Just grow<u>ing</u>-ups and stuck people. That's it. Leaders who understand this, and apply it to both themselves and the organizations that they lead, energize creative, innovative organizations. The arrogant are talking trash when it comes to aspiring to innovation. While they may be adults, we need them to be growing-ups. We need true humility and curiosity."

Bob Eckert, CEO – New & Improved LLC

Reality Check: To create *lasting* innovation we must move beyond the oversimplified perspective that product-pipeline monitoring via some stage and gating process tells us all we need to know. In reality, the companies with the most innovative products *at the moment* are not necessarily the most successful innovative organizations *over the long haul*. Serendipitous success, no matter how impressive, is not a driver of long-term shareholder value. **Dyson's** initial success with a wheelbarrow, and then a vacuum, and now additional products that leverage an increasingly broad set of core competencies, is a sign of using profit to sustain an innovation culture, not just a brand message.

And remember: Just because you were an innovative company at a point in time, it does not mean you will continue to be so. In fact, the more success you have had, the harder it is to remain innovative *unless* you have intentional and wise strategies (a clear roadmap) in place to continuously do so. Here are the 12 Strategic Action Areas at a glance:

12 Strategic Action Areas to Drive Innovation Excellence

Skills   Accountability   Measure   Technology

Environment   Experiment   Focus   Strategy

Governance   Leadership   Exploration   Facilitation

Here's a little checklist for some quick actions:

Checklist of Senior Leader Responsibilities in 3 Key Areas that Drive New Value Creation:

✔ **Individual Creative Thinking**

It is the senior leader's responsibility to assure an increase in the likelihood that the individual human minds making up the overall organization are able to deliver on their potential to connect previously unconnected thoughts in such a way that creates new value for the organization. This means the leader attends to things like the creation of policies and procedures that precipitate cross-fertilization, steady new learning, the ability to informally interact, breaking down of organizational barriers, and time to think.

✔ **Creativity**

The senior leader has a duty to create a culture and infrastructure - both physical and virtual - that allows for the safe sharing of rough ideas, nascent thinking, and heretical notions. They are accountable to drive the creation of support and sustaining mechanisms which enable individuals and small teams to experiment on new concepts - ideas that may be outside of the core business objectives and KPIs for which their direct manager is held accountable - that have a reasonable promise of providing value.

✔ **Innovation**

All innovation is derived from the creative thinking of an individual, manifested through the collaborative creativity of that individual and others. It is unfortunate that so many people see innovation simply as the delivery of a new product - a new three-dimensional object. In fact, innovation can create tremendous value for organizations by way of changes in process, overcoming difficult obstacles and problems, and even by finding creative ways to steer clear of the impediments to productivity that our human egos and group dynamics often unwittingly create. It is the senior leader's responsibility to assure that innovation across the _entire_ value stream is attended to and rewarded.

The 12 Strategies for Innovation Excellence™

There are 12 Key Strategic Focus Areas that wise executives need to actively attend to in order to create a culture of innovation within their organizations. We will explore each in turn with case examples. But be forewarned! It is all too common to fall in love with a few of the strategies while perilously ignoring the others.

Brilliant obsession combined with benign neglect dooms success. There is a graceful dance that one must do in order to achieve the ideal balance; some strategies need more attention than others, some require larger cost centers, some are revenue positive, some neutral, and some sunk costs. Constant attention is required to keep all 12 areas in *optimum* balance. And, the optimum balance for your organization is not the same as it is for others – this is where customization comes into play. However, customization needs are not permission to ignore any of the 12 areas.
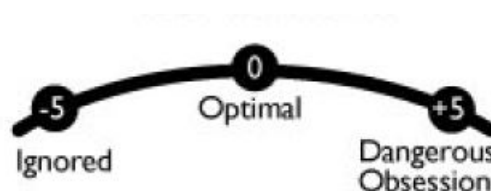
Before we get carried away with ourselves, we should note that any attempt to shift from a current cultural pattern to a new one will be met with resistance.

Activity and budget for shorter-term Key Performance Indicators (KPI) commonly trump energy and funding to drive longer-term strategies. Unfortunately, a manager's quarterly deliverable is always more important than attention to a longer-term, future potential because of the way that most of our reward systems are set up.

An employee, be it a senior leader, manager, or front-line worker, may be onto a great idea that would deliver significant value in the 2 to 3 year time horizon. However, unless systems are put in place to **overcome the organizational immune system** that seems to so elegantly kill off long-term opportunity in favor of short-term gain, the short-term horizon will almost always be the prime driver.

Only changes in metrics and accountability at the mid-management level, supported by training in innovation leadership and a budget for newness, seems to be able to inoculate the mid-level of an organization against an autoimmune response to creative thinking, creativity and innovation.

A note on simplicity:

We've all grown to expect that these kinds of lists (our Key Strategies) are lists of 7 or fewer. We tried to do this for the reader, but each time we ended up with someone on our team voicing the frustration of *"That oversimplifies and will lead to big oversights in strategic effort!"* So in the end, we left it as we see it. There are 12.

There is overlap as with any framework – that's okay. Don't let the fact that there are 12 overwhelm you, instead let it help you unbundle and untangle your thinking about where to put forth effort to foster innovation. If you engage fully in these 12 strategic areas, we're confident you *will* be successful.

We look forward to hearing your story.

Clearly, we're not going to sugar coat the challenge of changing a culture. It is a tough process and will call for tenacious and courageous efforts. No wonder it takes 12 Strategic Action Areas to make a lasting impact – a dozen focus areas that we believe will make it easier to be clear about the decisions that need to be made. What follows is an in depth description of each of the **12 Strategies for Innovation Excellence**.

Note to CEO:
Build a Culture of Innovation

"Building a sustained culture where innovation can thrive and drive results can be the most rewarding and meaningful work a leader ever does."

Bob Eckert, CEO – New & Improved LLC

The 12 Strategies are depicted in the following graphic. For each, there is a sweet spot. None can be ignored even though they may not all be equally important to your efforts. Continue reading for more detail, success tips, and real-world examples for each of the areas.

1. SKILL DEVELOPMENT

There must be ongoing training at all levels of the organization – from the Board and C-suite to new-hire orientation – focused on strengthening the organization's capacity for creativity, creative collaboration, and innovation.

Fortunately, much is known about what works in helping human beings, both individually and in teams, to leverage the creative potential that their minds already possess. Unfortunately, because few were curious about innovation from a scientifically rigorous perspective until recently, some of what masquerades as effective skill development is in fact counterproductive. Since we've written about this before in our white paper, BOILING IT DOWN: The Four Key Principles of Creative Thinking Training, and in a book we'll mention later by Eckert and Vehar, we'll only superficially explore this area here.

All skill development in the support of innovation must have, at its root, three main things: the intention to improve the creative thinking of the individual, the creative collaboration of that individual with others, and the effective utilization of the organization's resources to move new value forward. Training should be informed by what is known about:

➢ Neurologic potential and limitations
➢ Productive and unproductive interactions in human groups
➢ Cognitive and metacognitive dynamics of human thought

Yes, innovation skills development - at its best - gets into some very advanced areas pertaining to the human mind and thought. How could it be otherwise? Beware of training departments and outside vendors who portray innovation skills development as a simple thing where one needs only a few brainstorming skills, pattern-breaking tools, or a general awareness of innovation to be successful. The basics are necessary, but your human capital will be absolutely outclassed by a competitor playing a bigger game in this area if you stop there. And as much as we would all like to have an easy fix, there is no such thing as a one-size-fits-all training program.

Success Tip! A specific base skill that every employee needs to have under their belt is an understanding of Creative Problem Solving (CPS). To quote Deb Dunsire, CEO of **EnVivo Pharmaceuticals**, in a conversation with our CEO, Bob Eckert:

"Innovation is about the people first, and the people need to be helped to be skilled at Creative Problem Solving."

There are many different "innovation methods" circulating about these days, but the process for which there is the most research, and which describes the natural human creative process, is CPS. It was articulated through observation some 60 years ago, and refined through peer reviewed research since then. When made overt, it allows any other creativity or quality tool to land on fertile mental territory. Start here with this open source system in your efforts to develop innovation skills and you will be well served. Start elsewhere with bounded proprietary systems and you often sew the confusion created by incomplete systems purporting to be all that is needed.

Let's be honest about another untold truth in skills development. It is often difficult for managers to "let go of" an employee during the time it takes for training, and even more difficult to do so for themselves. The higher in the organization one observes, the more this is true. Smart organizations are choosing to put "percent trained" metrics in manager objectives for specific innovation skills training. Then it gets done. And the culture gradually changes.

SKILL DEVELOPMENT
Real-world Examples:

The German company **Bosch** decided to strengthen the company's innovation culture in Asia Pacific. Part of this effort involved skill building on all levels. Therefore, a number of trainings around creative thinking and innovation have been designed to target leaders as well as technical experts and middle managers. By targeting all levels, Bosch has avoided a common mistake of innovation skills development: assuming senior people already have the basic skills and do not need training. To the contrary, our experience is that **senior leaders frequently have innovation impeding habits masquerading as good management behavior**. They often need *more* training, not less.

A **Pension Fund Advisor Company** that acquires multifamily real estate for its clients was impacted by the financial crisis of 2008. Until the crisis they were buyers of fee simple real estate (fee simple is buying a property and taking full title ownership. It's standard real estate acquisition). Entering their strategy meetings, they realized the marketplace on

Success Tip Number 2! Many organizations tend to see training and development as a necessary evil. It is a "sunk cost" that is likely to be one of the first cost centers tapped for savings during difficult times. It's a luxury. While we see this attitude as short-sighted, and most would deny it, budgeting tells the truth.

Most of our training clients have seen the *revenue growth opportunity* available in creativity & innovation skills training however. If the training programs are delivered by trainers who *also* have top notch facilitation skills, every level of training in this area should include "real work" with the purpose of bringing new value to the organization – whether in savings, process improvements or new offerings.

When Remarketing Services of America, Inc., (RSA), then a subsidiary of **Mercedes–Benz**, offered training in this way, Level-V ROI studies indicated 90 day returns in the 750-1100% range. (See how Hewlett Packard does this ROI research here) Other clients have been so confident in this return that they won't spend money on studies. They trust and track employee self-report ranges of savings and new value creation. They've turned training into a bottom line value generating machine, training thousands of employees across every part of their value stream.

Read a detailed description of the RSA case study here:
http://www.newandimproved.com/roi/

which their business model was built was broken. The acquisition team was suddenly thrown into a change or die paradigm. Using structured creative tools that they learned through training, they built a pathway to remake themselves from a standard player into a company that could take advantage of the tremendous opportunity that existed in a fractured marketplace. Today they do joint ventures, development, buy distressed debt, and make capital injections into struggling firms. As they put it, *"We now play at all levels of the debt/equity capital stack in our multifamily niche."* They changed their business model from a buy and manage company to a boutique investment banker for multifamily real estate, and they did it quickly allowing them to define new, specific strategies and execute them in an otherwise confusing environment. **Innovation skills training, which they applied, did more than keep them alive; it took them to the next level as a business.**

Many organizations we work with are constantly looking for new and better ways to solve problems, improve their organization, develop new products and plan for the future. One such organization, the **Clorox Company**, tracked the efforts of the Innovation Teams we trained. The results are compelling: dramatic time and money savings, as well as increased productivity and profits. Here are a few of the many problems that Clorox tackled, and in many cases transformed into opportunities:

Solved: a thorn-in-the-side, 77-year old consumer product problem that ranked as #1 customer complaint. This problem was solved through a series of provocative questions that reverses some assumptions about the product and resulted in a new, patentable product idea.

Solved: a way to combine two ingredients that can't be combined. A unique experiment provided insights that resulted in the development of a new consumer product.

Solved: helping consumers see an "invisible" product benefit. Team efforts lead to an imaginative solution used during in-store consumer product demonstrations.

Solved: shortening the governmental approval process for new products. The key was finding new ways to work with the US government regulators.

Solved: improving routine health test efficiency. Solutions improved efficiency by 30%.

Solved: cost-effectively sorting two nearly identical materials. The solution reduced a two hour process that required two research scientists every day to a 10 minute automated process that is now a trade secret!

Solved: cost-effectively labeling bottles. A new, patent-pending labeling method saves $300,000 per year.

Solved: finding ways to make safe labs safer. In some of the safest labs in the business, this Innovation Team discovered additional ways to improve safety, further reducing the likelihood of lost-time accidents.

2. ACCOUNTABILITY AND RECOGNITION

Leaders, managers and the workforce are held accountable to innovation-fostering behaviors.

We are **not** talking about a system of perks and rewards for those who *produce* notable innovation. We're talking about **the basics**. For example:

- How are people rewarded when they support the creative thinking of others or held accountable when they don't?
- How are managers recognized when they create team climates that allow for effective, collaborative and critical thinking or held accountable when they don't?
- How is employee engagement in identifying new problems that arise and working to solve them, reinforced?
- Are employees praised or criticized for exhibiting the humility that drives curiosity and feeds the mind with new information from which creative thinking develops?
- Are employees acting courageously and tenaciously to pursue that which they believe will strengthen the enterprise or are they managing to "just get the job done"?
- Are all employees supported to maintain integrity with the fundamental behaviors and values that drive creative thinking and collaboration in themselves and others? (See whitepaper, The Way of the Innovation Leader, describing this key value set). Are they accepting of feedback when they're not staying true to these values – and are they willing to give feedback to others when others are not?
- Are business units held accountable to meeting negotiated metrics for improvement in the fundamentals above or are they not?

Success Tip! Reward is one of the most challenging areas to "get right." There are many pitfalls. The default is to reward those who stand out in the implementation of innovations having to do with an organization's offering, but the data about the effectiveness of such a strategy is confusing. In fact, this kind of reward is sometimes shown in the research to be counterproductive. Since there is already a system for rewarding good employee performance in general, we wonder why there is a need to create a separate system for innovation.

Consider acting to strengthen the current employee evaluation system by asking: "*What might be all of the ways to utilize our current systems of employee and business unit appraisal to strengthen our culture of innovation?*" Run some experiments. Evaluate. Refine. Borrow a leaf from **Starbucks**: find ways to increase employees' sense of ownership while at the same time strengthening their creative problem solving skills. This, research has shown, is a guaranteed innovation energizer.

Find ways to recruit and reinforce with evaluation what has been shown to be two core differentiators between low and high innovation producers: The ability to find and connect that which was previously unconnected, and the ability to empathize well with customers, both internal and external.

"Accountability breeds response-ability."

Stephen R. Covey

ACCOUNTABILITY AND RECOGNITION

Real-world Example:

At **Amazon**, they are aware that a short term focus is dangerous to the survival of innovation. They have found a way to manage accountability and recognition that is providing them with more of the innovation fostering mid-manager behaviors that they desire. The problem is that in most "normal" situations, managers of business units must be held accountable to deliver on the things the business is requiring of them *now*. It can become too easy to always ignore long-term creative work in favor of the short-term win. This is even easier to do when manager bonuses are awarded based upon these short-term wins. **It's essentially impossible to bonus someone based on long-term potential since bonuses are structurally built to be driven by short-term results.** In order to combat this contradiction, Amazon eliminated all bonuses. Instead, they make employees owners – people with a long-term view – by awarding actual stock, not options, for performance.

"I believe you have to be willing to be misunderstood if you're going to innovate."

Jeff Bezos, Founder and CEO – Amazon.com

3. KEY MEASUREMENTS

It is important for organizations to have an understanding that value will be derived from both incremental improvement through things like quality and Lean Six Sigma, and also from breakthrough improvement – what is typically called "innovation."

There are **four metrics** to focus on which will, over time, give you the ability to analyze resource allocation in a particular area.

- **Efficiency**: Savings and brand equity development via quality improvement of processes and offerings.
- **Incremental**: New value creation via offering development in your core competency area.
- **Radical**: New value creation via offering development in areas adjacent to your *current* core competencies.
- **Transformational**: New value creation via offering development in areas very different from your *current* business focus.

It's true that some individual human beings have a preference for one type of improvement over the other, and that some geopolitical cultures prefer one type of improvement over the other. In any case, every organization, irrespective of preference, needs to think strategically about all four of these key areas.

Many organizations seem to oscillate between a focus on innovation and a focus on efficiency by way of quality initiatives. What is recommended, however, is to find a balance where efficiency and innovation are occurring at the same time. These two counterposing focal points, if well integrated, can deliver a steady growth state and better long-term planning for the executive suite as well as the business overall. There is no defensible reason why innovation and efficiency efforts can't occur concurrently. However, if improvements and revenue growth are not consistently measured, it is difficult to know when an overemphasis is beginning to cause difficulty in the organization.

Too much of a focus solely on innovation leads to "shiny object

Success Tip! Without metrics giving senior leaders a sense of the cultural leaning (more towards efficiency improvement, or more towards an emphasis on breakthroughs, or "balanced just right") it is just too easy to get it wrong.

For senior leader strategic planning purposes it is important to understand the resource allocation to quality vs. breakthrough. For breakthrough, there are various ratios currently circulating in the business literature purporting to describe "just right." The most common, derived by observing successful consumer goods companies is 70% core innovation, 20% adjacent innovation, and 10% transformational innovation. This ratio is typically considered solely as a measure of innovation within products and offerings. [Coca Cola](), as an example, has decided that with respect to its marketing innovation it will follow this ratio, then apply development budget in a 50/25/25 ratio respectively.

The sweet spot will be different for different industries and grow over time via analysis and experimentation for your sector and organization. *Combine* this with a measurement of savings/value creation via quality/efficiency efforts. Start gathering and analyzing your data now to build wisdom about a good balance for your company. Beware of applying only offering oriented metrics, or those derived from other sectors.

> *There is no defensible reason why innovation and quality efforts can't occur concurrently.*

syndrome" – strapping the organization of the cash reserves necessary to fund smart growth and weather difficult external economic pressures. Too much of a focus on efficiency and improvement and you rob the

organization of the intellectual capital and cognitive free time necessary to find the breakthroughs that create the next platform for significant growth. All too commonly, the unfortunate competition between quality and innovation rears its head. For instance, it's very difficult for a manufacturing-based business with a long history of deriving value from quality improvement to systemically do things that make radical or transformational innovation likely. In fact, it's easy to be seduced into the kinds of incremental improvements that actually undermine your innovation capacity. Because of these difficulties, putting in key measurements is absolutely essential in terms of achieving homeostasis within a business model.

It's outside the scope of this report to dig more deeply into Polarity Management; if you are interested in learning more, we highly recommend you dive into the thinking of Barry Johnson, and his book *Polarity Management*.

KEY MEASUREMENTS
Real-world Example:

We received a desperate call from a middle level manager asking that we speak for him to the CEO of his **Fortune 500 Global Company**. This frustrated manager, who is highly valued by his organization due to his effective management of his direct reports and his valuable patents which are protecting products currently being sold, was thinking of leaving the company.

Why? 5S+1. A *Lean*/quality initiative was working its way through his organization. A smart money-saving strategy on manufacturing floors and in laboratories, 5S+1 is a requirement for systematic orderliness. It can be a bad thing when applied to the office working environment where personalization appearing as disorderliness is often the stimulus for breakthrough creativity which can in turn lead to game changing innovation. While we did not choose to bother the CEO with this particular concern, we did reach the global head responsible for *Lean* implementation. He saw this is an inappropriate use of 5S+1 and took action to protect the creative space. And, thankfully, the valuable manager decided to stay. **In this case, an emphasis on quality was attacking the roots of innovation.** Thanks to the quick actions of this global head, an innovation fostering environment was protected before too much damage could be done.

4. TECHNOLOGY
Creative collaboration platform that employees/customers can access to enable ideation and problem solving.

Creative thoughts do not turn into innovation without high quality collaboration. We will speak elsewhere about other methods to foster collaboration, but here we'll discuss the use of information technology. It is quite possible to use IT to support productive collaboration amongst employees, suppliers, customers, and at times, even with competitors. These IT systems are described as "closed innovation" when only employees participate, and as "open innovation" when mechanisms are created to pull thinking in from outside the organization. Recently, an entire sub-industry has emerged to support what they like to call "idea management" but which we would prefer they call "creative collaboration." *Basic functionality requires* that these systems organize the ideas that come in from various parts of the organization and consolidate them into one space. However, more than a simple searchable idea repository is needed.

It *is* possible to create intra and internet-based collaboration systems that allow for smart ideas to move forward in an organization from either internal or external sources. And it *is* possible to utilize the same platforms to strengthen the process of Creative Problem Solving for various challenges. In our experience, idea capture technologies rarely deliver on their promise over time if they are seen only as a way to share ideas. However, if an organization leverages the capacity of the technology as another source for finding unmet consumer needs, business process challenges, etc., then there is significant opportunity for new value creation. These platforms should not be seen as something new, but rather as a robust way to streamline what has always been the method for fostering innovation.

Such as:

- Listening well to others
- Finding experts you haven't met yet in the organization
- Creating opportunities for interaction around ideas
- Surfacing and prioritizing organizational challenges
- Getting diverse opinions and perspectives involved
- Trusting the wisdom of many minds

Success Tip! Don't reinvent the wheel. There are software development companies that have chosen to specialize in the design of creative collaboration software platforms. Just because you have smart programmers capable of developing something doesn't mean that they will have the bandwidth to keep up with the industry and provide functionality borne from broad experience.

The first to market in a significant way was **Imaginatik**, with its product "Idea Central." They initially dominated the market so strongly that their founder was able to move the company to public trade. Since then, this sector has become extremely competitive at the enterprise level, with a dozen or so significant players learning from each other's successes and mistakes. Simpler, easier to use solutions like [Waggl](www.waggl.com) are also beginning to appear that allow questions to be posed and answered, responses voted on and results delivered with no infrastructure cost.

Learn from them. Conduct a bit of due diligence before answering the question "Should we build it ourselves?" Our general advice is not to.

We've seen many instances of idea management systems rolled out in organizations. Unfortunately, many of these systems are in fact not much more than electronic suggestion boxes. What happens is that there is an initial flurry of ideas into this box, but because there is often no system in place for scoping ideation, vetting, approving, moving forward, or funding those ideas, the employee base becomes jaded and sees this implementation (appropriately) as another flavor of the month. A slightly more informed perspective (but still not quite fully utilizing the potential) is to have a governance group which regularly reviews ideas that are submitted and prioritizes which will move forward. Even then, so many ideas are often received and not responded to that the same flavor of the month branding sticks to the effort and the perception of the employees is that their thoughts are not valued.

In the better platforms, two additional functionalities help to deliver the full promise in technological support for creative collaboration:

- **Competency & Interest Search**. Just as LinkedIn allows for the creation of communities of interest around particular subject areas, these platforms offer a similar opportunity. But, in the bounded universe of a large organization, it is also wise to enable a competency search function based upon employee skills, experience, interest and background. The informal network that has always existed to answer the question "Do you know anyone who knows about X?" can be potentiated incredibly with this type of "search for intellectual capital" functionality.
- **Crowd-sourced Decision Support.** Flying under banners such as "predictive markets," "wisdom of the crowd" and "crowd voting", these systems use embedded voting heuristics, as well as some type of money-like motivation mechanism to foster thoughtful involvement of employees. Long-term practitioners in the innovation game know that divergent, creative thinking is often less of a need than wise convergent decision making. Leveraging social media to help in this regard is often times yielding wiser decisions than the traditional, "sell the manager, then sell the director, then sell the VP" approach. Wise though they may be, a senior governance group can almost always be outclassed by a large well informed crowd. Be sure to read the **Rite-Solutions** case example in the "Experimentation" area to understand a successful way of blending ideation, governance and funding.

"Information technology and business are becoming inextricably interwoven. I don't think anybody can talk meaningfully about one without talking about the other."

Bill Gates

TECHNOLOGY
Real-wold Examples:
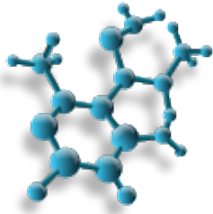
A Global Polymer Manufacturing Organization has taken the approach which we see working more effectively over the long run. They utilize software and a web interface to allow a dedicated team to uncover key challenge areas for the organization. Their governance group makes decisions as to which challenges make the most sense to approach at a given time. **These challenges or, as they call them, "campaigns" are promoted to the organization for creative input**. This occurs only after project management and funding has been put in place to follow through on the best thinking that comes in by way of the software platform, which removes the danger of flavor of the month branding.

At a **Global Electronics Manufacturing Firm**, our trainers and facilitators have run across five separate unintegrated efforts to create an IT enabled idea capture system. The impulse is altruistic and fueled by a clear desire to foster more innovation, but **the quality of effort (to say nothing of the duplication) is poor.** There is an entire specialized software industry focusing on "getting this right" and the competition in it is fierce, driving rapid quality improvement. But, at this company, there is no integrated approach to, or governance for, innovation efforts. There is no centrally accessible expert resource on building the support for an innovation culture. Instead, there is duplication and poorly designed effort that could easily be directed in more efficient ways.

5. ENVIRONMENT
Purposefully designed physical spaces that foster better collaboration and creativity.

Creating some specific places and a general design within a workplace environment to promote collaboration is a concept that has produced many creative arrangements in recent office designs.

The *expected* benefits are promoted by innovation experts, office designers, and others, while as organizational development practitioners, we explore the *actual* results. Organizations investing in changes in the physical environment to encourage collaboration are on the right track and these designs can be tweaked to deal with complaints about distracting noise or a lack of privacy in some arrangements. However, the senior leader's responsibility involves more than approving the budget for renovations. The most innovative physical environments also queue creativity with design elements that foster an unconscious affective support for creativity in the human mind. While general workspace design and layout is relatively static once chosen, visual stimulus should be ever changing. The message is "Create!" Whether via a temporary installation of art, a new artifact placed in the entrance lobby, a unique creative stimulus pushed to the morning log-on screen, or a short pithy reading on the back of bathroom stall doors. In organizations that are getting this right, there is typically a team engaged in using the real-estate to regularly foster creativity and make well thought through design decisions that will likely lead to collaboration. The difference is in the dedication to a steady change in stimulus.

Success Tip! Understand that different people work best creatively in different environments. Some are more creative in noisier surroundings, some in quieter ones. Some do better around the energy of others, some need alone-space.

Create physical environments that allow for both. And watch out for Beautiful Building Syndrome (bBS). We have seen too many examples of buildings created with incredibly attractive design elements, but, once built, everything stays static. While this gives "cool brand" cues to customers and potential employees, the impact on longer-term employees wanes rapidly. You must find ways to use your environment to regularly provide new stimulus to your employee base. Pretty buildings say "we *were* creative." Pretty buildings combined with regular new stimulus say "we *are* creative."

"One thing that's been really successful with the – we call them huddle rooms at the d.school, where teams can huddle together and get work done in an impromptu fashion. The furnishings in those rooms are deliberately ambiguous. Right now, we have some furniture in there that most closely resembles benches or pommel horses almost in gymnastics. By having this unlikely and surprising or ambiguous furniture in there, it actually keeps teams on their toes so that they don't fall back into the sitting back and lounging for a long time posture. It keeps the energy up."

-Excerpt from HBR Blog Podcast 2012.1.19 interview with Scott Doorley and Scott Wittoft, authors of *Make Space: How to Set the Stage for Create Collaboration*

ENVIRONMENT
Real-world Examples:

Immediately prior to beginning work with us, a global **Biomedical Engineering** firm decided that in order to launch their innovation effort, they would alter their environment and build a location with the ambiance of a coffee shop where people could meet, collaborate and do creative thinking. It was beautiful, and it had all of the latest technology. **Unfortunately, accountability dynamics for managers were such that they were not happy seeing their direct reports "away from their desks."** Employees, reacting to subtle management pressures, did not use the new space effectively or broadly. Eventually, senior leaders began to change their actions to align with improving a culture of innovation, and mid-level managers were offered skill development that helped them become better innovation leaders. Then the space really began to deliver on its promise. This combination of mindset and space allowed for a better overall culture within the organization. And the coffee was really great too!

In another case, the project came together a little more smoothly. **Software Company** based in Munich, Germany, created a playful environment for the employees to come together by putting soccer/foosball tables in various locations within the office. Contrary to the fear of some in management that people might get distracted from work, they found that people from different departments met to have a game of table soccer and at the same time discuss work-related issues. **The company realized that cross-departmental communication and problem solving both increased substantially after the soccer tables were introduced**. But it was less about soccer tables, and more about managers supporting non-traditional approaches to facilitating collaboration.

Another of our partners, a **Nutritional Ingredient Manufacturer**, was expanding to a new office building in which the facilities director leading the design team made the move to create curved spaces.

"I did a human factors study in our old space and noticed that my introverted R&D scientists were walking around with their heads down in their paperwork or smart phones. You've taught us that we need our people to interact more frequently and informally to increase the occurrence of serendipitous interactions. All of our new spaces require that they walk with eyes up, or crash into a wall (this she said with a chuckle). We are seeing a lot more casual interaction, and the general cultural feel is friendlier!"

6. EXPERIMENTATION
Easily accessible internal venture capital for small innovation experiments.

The strategy here is to enable people to move forward on their ideas without having to go through complex levels of a bureaucracy and mind-numbing approvals.

All organizations have standard funding mechanisms within their legacy structure to support change and proposed new work. The challenge is that when business units are running at full speed, often utilizing the human resource at 100% plus, it is very difficult for interesting ideas that are not directly related to the specific objectives of that business unit to evolve beyond a creative impulse. If I have a great thing that could help our company, but it's not in my current set of responsibilities, organizational pressures to meet standing objectives are likely to cause a response from my boss similar to "Great idea, but maybe next quarter. Right now I need you on project *Zindle*." To be *Zen* for a moment: The next quarter will never arrive; there is only now.

So, smart organizations find a way to build a "do it now" pathway for the passionately inspired. This is where the oft described "spend 15% of your time to pursue your own passion" solution shows up. Unfortunately, when investigating this in benchmarking studies, we have seen few actual instances of this policy surviving any length of time. Day to day responsibilities, pressure for delivery on short-term objectives, and finance driven pressures to lean out the human resource steadily undermine the good intention of structuring discretionary time. Recent interviews with employees at **3M**, one of the most often quoted examples of this policy working, have led us to understand just how hard it is to keep this kind of thing alive. The 3M "15% story" is better told as one of steady aspiration since 1948, rather than one of steady implementation. Success waxes and wanes. Fortunately for 3M, the aspiration has remained on the books so can be energized non-punitively by forward thinking leaders. We'll speak more about this as we discuss the "Exploration" strategy area.

Success Tip! Create available time, money, and/or resources so that people can "play" with new ideas. It's a work-around that allows adjacent and transformational innovation to take its first breaths. It sometimes is a work-around for core innovation as well, when the standard development sequence, staffing pressures, and budget cycle is inhibiting the new value creation that can be garnered from employees' discretionary effort.

Create a kind of "internal venture capital" group, supported by the CEO & CFO, that any employee can get access to without managerial permission. Tie it to performance measures on managerial 360s that would result in a lower rating if the manager were seen by their reports as inhibiting access. To be fair, as part of the process of funding, the resource drain on that manager (caused by an employee pursuing their innovative, but out-of-KPI, idea) should be either augmented with additional resource as part of the funding stream, or their objective delivery dates should be slid forward in a mutually agreed upon way.

EXPERIMENTATION
Real-world Examples:

After some hard learning that came from instituting an "Idea Management Program" (see Technology strategy area above), **Ericsson,** speaking through an article in Fast Company, boasted the following: "Over 300 Electronic IdeaBoxes set up by employees have, to date, cumulated more than 16,000 ideas and comments from over 10,000 users." **That's a whole lot of activity without an outcome.** One can imagine the frustration of managing and responding to so many ideas, let alone implementing any of them. And as an individual, you'd feel the frustration of submitting what you feel is great thinking amid the cacophony of unfettered ideation. Fortunately, Ericsson utilizes an internal venture capital system to give hope of life to all of that great thinking.

At **Adobe**, they developed an interesting system for experimentation. As described by an employee at Adobe in February of 2013:

*"We have a program called the **KickStart Innovation Workshop** that offers a uniquely powerful experience that can change individuals and careers. Employees are given a red box. Inside is everything they need to become an Adobe Innovator, including some **seed money on a pre-paid credit card with a step-by-step process to originate an innovative new concept** and then use that money to validate that concept with customers. No proposal. No committees. No approval. Just do it.*

*What's more, some of Adobe's top innovators personally coach participants on their journey through the six levels of this lean enterprise innovation process. This is not an exercise. It is not practice. Participants do it for real including validating with actual customers, generating real-world data proving their concepts and presenting results to Adobe senior executives for further funding. [Those executives sometimes] **carve off skunkworks groups** to tackle new opportunities that might be threatening to existing business units, or that will never get enough attention from them."*

At **Rite-Solutions**, a systems and software development firm, the architecture of participation is both businesslike and playful. Fifty-five stocks are listed on the company's internal market, which is called Mutual Fun. Each stock comes with a detailed description — called an "expect-us", as opposed to a prospectus — and begins trading at a price of $10. **Every employee gets $10,000 in "opinion money" to allocate among the offerings**, and employees signal their enthusiasm by investing in a stock and, better yet, volunteering to work on the project. Volunteers share in the proceeds, in the form of real money, if the stock becomes a product or delivers savings.

7. FOCUS
A group responsible - <u>with active executive involvement</u> - to foster a culture of innovation.

Innovation efforts, like any other, whether it be safety, quality or ethics, will experience a decline in effectiveness through entropy unless there are human beings held responsible to continuously renew organizational commitment in ever evolving ways. When this is done well, systems and accountabilities are built and steadily improved to drive the 12 Strategic Action Areas that this paper speaks to.

The **focus** we're speaking to here needs to be on the <u>underlying enablers of innovation</u>, not solely on the artifacts or outcomes. Mature organizations already have an innovation pipeline and some type of stage-gate-like process. And yes, there needs to be accountability to good throughput in that pipeline. It is too easy, however, to get obsessed with the metrics associated with that pipeline and devalue all of the "soft" activity that energizes and sustains the culture feeding the pipeline. As one culture auditor at **Novo Nordisk** (they are technically called facilitators, but they were auditing the core cultural dynamics of each business unit every three years) told us: "The soft stuff is the hard stuff."

Additionally, this responsibility will die a slow painful death if it is relegated too far down in the organization. As pressured as executive roundtable agendas are, senior leaders themselves need to be vigilant for inattention. Innovation culture must be a standing agenda item. Budget, effort and human resource allocation needs to be protected during times of success *and* downturns. Success breeds the arrogance of "keep doing our core

> *"[When it comes to Innovation…] the soft stuff is the hard stuff."*

as we've been doing it, we don't need to innovate" and downturns lead to the politically nasty competition for resources that kill longer term strategic innovation efforts. The structures and policies to drive innovation must be built to outlast both upturn and recessionary scenarios.

Innovation leaders need to support the organization to seek new value through human creativity in every function and value stream of the organization. Whether your organization looks for innovation opportunities with the help of Clay Christensen's "3 Levels" or Rowan Gibson's "4 Lenses" or the Doblin group's "10 Types", the focus needs to be everywhere. New value can and should be steadily created *throughout* an organization's ecosystem.

Focus Success Tip! Create a senior level, <u>C-1 position</u> that is responsible for the initial organizational design to create a more innovative culture. This person will look at a document like the one you are reading, and make sure the company is neither dangerously obsessing nor totally ignoring key strategic action areas. Once well established, (expect this to take 3-5 years) this responsibility might be operationally delegated downward, but <u>at no time</u> in any conceivable future, should there be a diminishment of accountability in the executive suite. <u>Every</u> executive reporting to the CEO needs to be held accountable to an *ever-evolving* innovation culture in their business area. The Board of Directors needs to protect long term value by holding the CEO accountable in a similar fashion. No exceptions. Where this is not the case, there is a clear lack of will. And, it will cost you dearly if a competitor chooses this level of accountability before you do, and executes well where you have been inattentive.

FOCUS
Real-world Examples:

In our practice, we've seen the following pattern play out three times in the last five years in **Fortune 500** companies that we work with at only the departmental level.

Each placed "innovation" amongst their core values. A great innovator in their sector was either enticed out of retirement, or given the responsibility as a career opportunity. In one case it was to be the individual's lasting legacy prior to retirement. Their task was to **energize innovation enterprise-wide**. Our assessment is that they were each up to the task and curious enough to learn what it takes to do this well, but regrettably, all three of these positions report to a C-1 boss that was either uninterested in innovation or was unsuccessful at winning the resource battle with their own C-1 peers. Sadly, after a short time, all the positions were eliminated, and innovation "responsibility" was reverted to the C-1 position with no accountability, or delegated further down to an individual with narrow responsibility and little power. We get regular e-mails from the employees at these organizations crying out for structures and supports to unleash their potential, and to remove inhibitor behaviors and mechanisms. Time will tell if this innovation value will survive (or if the companies will).

In 2002 we were working with a business unit in a **Large Pharmaceutical** company when that company decided to add "innovation" to its corporate values. To roll this out to its employees, the company created posters and placed tent cards with the new value list on their cafeteria tables globally. Charmed that they had chosen to add innovation as a value, we picked up the tent card and read the descriptions of each. As we read down the list, we were impressed that after each value there was a paragraph that spoke of the *behavioral* aspects of living it. Integrity, for instance was followed by a paragraph that read something like "*We hold ourselves accountable for doing what we say we will do, invite feedback for moments when we are out of integrity, and offer feedback to others in return.*" Very behavioral. The innovation value was followed by this: "*Innovation is the life-blood of our company.*" Full stop. A year later, we were engaged in an executive coaching capacity by the senior leader struggling emotionally and logistically with the **best way to lay off 20,000 valuable employees.** Were we Wall Street analysts, we would have served investors well if we had issued a sell order immediately after seeing that tent card.

Vicarious Visions, a video game studio, has a physical environment that promotes playfulness, team collaboration and cross-team conversations. When working at their site, we see things like a central courtyard with a common kitchen, foosball and other action games, free food events, an exercise area and lab space for cross disciplinary design events. Fortunately, **they do not stop at what could be the easy "dangerous obsession"** and allow these physical space innovation strategies to seduce them into a false vision of complete effort. They are also a good example of "Focus." They have a diverse executive leadership team that routinely engages in conversations about *how to bring more innovation* into all phases of game development as well as the overall organizational culture. And they develop action plans to follow-up on those ideas. This company has done a great job at both having strong functional focus *and* balancing their efforts in order to create an excellent overall innovation culture.

8. STRATEGY
Clarified <u>goals</u> for profit generated from current offerings, new offerings and efficiencies.

"Strategy" as we intend you to think about it here links directly back to "Measurement" above. Get your measurement system right first, *then* make some clear, mature, and as bias free as possible decisions about what your specific goals need to be in the four measurement areas: (Efficiency, Incremental, Radical and Transformational). And, do this in every aspect of your business:

- ☑ Finance
- ☑ Processes
- ☑ Offerings and
- ☑ Delivery

As we've repeatedly written, in our current cultural understanding of innovation, the perception is that it is all about new offerings, aka products and services. The dangerous blind spot within this point of view is that you miss potentially huge value opportunities that exist in areas of the business with only an indirect relationship to the offering pipeline.

The Doblin group analyzed return on innovation efforts over a 10 year window. The findings were fascinating. While it was shown that the vast majority of investment dollars over that 10 year period went into the offering area, **the vast majority of new value creation (at least 100% greater return) came from innovation efforts in finance, processes and delivery.**

> **Strategy Success Tip!** Find a way to assure that your executive team has more than just a basic understanding of the process and promise of an innovation culture. Help them see that evolution of competitive advantage in their area of responsibility will occur. If not in your company, then certainly elsewhere. Guide them to arrive at a mature "what's in it for me" if their area of responsibility were to be influenced by a strong innovation culture and supporting structure. Help them imagine and desire a team dynamic among themselves that is one of an effective innovation team (see "More Lightning, Less Thunder: How to Energize Innovation Teams" by Eckert and Vehar).
>
> Wise strategy flows from well-functioning executive teams. Build one.

When we facilitate strategic planning sessions for senior leadership teams, we regularly hit a wall of argument that is energized by a lack of clear executive alignment (we're there to help them think creatively past that wall). This discord tends to be about how much should be invested to find incremental value growth through efficiency, how much through leveraging current offerings to extend volume and reach, and how much should be through new offerings. The VPs of manufacturing, marketing, sales and development tend to want to drive resources to their line of business. Allocation decisions are unfortunately too often made based upon personal politics rather than any wise, clearly defined, long-term growth strategy. Smart executive teams fix this by setting targets and allocating resources to achieve those targets.

As described in our discussion on "Measurement", there is a gradually emerging body of research in this area attempting to describe industry specific "sweet ratios" between efficiency, current development, and new development. Our sense is that this will mature, likely first in the Consumer Package Goods area, but that we are not there yet. There is agreement that the question needs to be overtly asked, and a strategic answer chosen which will then be tweaked as learning occurs. Again, the executive team that does not do this overtly runs the risk of personality based decisions, which is fine if your team's strongest influencers are absolute geniuses. Respectfully, this is an all too frequent dangerous delusion.

> *"Never doubt that a small group of committed individuals can change the world. Indeed, that's all that ever has."*
>
> Margaret Mead

Insights on Innovation
Energies & Preferences

A fascinating psychological dynamic often plays out in executive teams' designing (and funding) strategies. We're indebted to Gerard Puccio's work at the International Center for Studies in Creativity as it has helped us understand and intervene with executive teams to help them build better strategies. Puccio created an instrument (called FourSight) that accurately measures preference in the creative process along four dimensions:

We've written about this tool in earlier whitepapers (Innovation Team Preferences: People Prefer to do Things Differently) but the connection here is this: strategic decisions on funding and focus are influenced by the creative preference of executives. And sometimes not to best effect. An awareness of those preferences by the executive team can significantly improve that group's ability to make smart choices about where goals need to be set in order to drive greater long-term growth for their organization.

Whirlpool's well publicized – and relatively successful – journey to build an innovation culture has made them somewhat of a poster-child for innovation writers. We are a fan of this quote:

*"You begin to see the **magnitude of infrastructure that has to change to support it** [plans to reinvent the corporate culture to embed innovation as a core competency]. And remember, we weren't adding on to a core competency. We were creating one that didn't exist."*

- Nancy T. Snyder, Vice President of Leadership and Strategic Competency Development at Whirlpool Corp., in 2004

Changing an organization's strategy to include a more mature focus on building innovation culture is clearly a daunting task. Often, it is the leader's responsibility to put an unprecedented focus into place, and the beginning phase can make the job seem nearly impossible. However, history has shown that approaching the challenge with full commitment vs. a tepid one is the best way to create a long-lasting strategy. It took the unwavering focus of the CEO at **P&G** to overcome the understandable resistance of the Legal Division to accepting the **messy task of outsourcing 50% of its innovation pipeline** after a steady history of strong preference to the legal simplicity of internal sourcing. Such is the reality of big change. Big change is not led by big groups, but by small groups of committed individuals.

9. GOVERNANCE
A clear pipeline map for product development, governance and project tracked by stage.

This is one of the most easily understood elements of a well-developed innovation architecture, so we will spend little time in its description. Frankly, it is where most organizations put their first energy when trying to get a handle on being more innovative. **Stage-Gate International**, a vendor of pipeline process and governance methods, has almost become the Jell-O of pipeline governance. To their brand credit, the term is now generic for any pipeline throughput monitoring and governance method (as Jell-O, to the chagrin of Knox, is to *all* gelatin desserts).

Here's why it is needed: As senior executives, we need to be able to predict what will happen in the market in the near term future so that we can manage all spending, including spending on innovation. If something is happening in our overall culture that is improving or impeding our innovation flow, a well-articulated and understood pipeline will be one of the first places where we can see that happening and either potentiate or repair as needed. Consumer Package Goods (CPG) businesses and Big Pharma have spent huge amounts of treasure getting these pipelines well mapped and understood. The opportunity – often missed – is to link the metrics available via these pipeline dashboards to decisions about the relative cultural dynamics driving that pipeline. To Nancy Taylor's quote above, it's a complex system. You need to have some diagnostic tools to see how you are doing.

To stretch your thinking, we offer up another metric: culture. This has been shown to have a significant impact on the quality and quantity of what is available at the mouth of the product funnel, as well as how elegantly things move within it.

Theresa Amabile, now at Harvard, looked at what the key drivers of a culture of innovation might be. In other words, what kind of culture feeds and runs a product/offering pipeline best, and what kind of culture improves net asset value? The data is clear, and there is a well validated and respected tool for assessing how an organization is doing, called the KEYS Assessment. It looks at 12 leading indicators for a climate of creativity. When used well, this assessment is regularly repeated by an audit function to look for both centers of excellence within the business and units that need some extra help with their climate so that they can fully deliver their value. We see that organizations that are paying attention to this data at the governance level, and acting upon it, feed a better pipeline and are better at quality/incremental improvement.

GOVERNANCE
Real-world Example:

While business writers described the "Big Pharma" of a decade ago as having trouble filling its pipeline other than through merger & acquisition, most firms did have a very well-articulated development pipeline. One center of excellence for innovation culture at a client during that time was a group focused on strengthening project management. This group was part of a team tasked to look at the entire pipeline in their company (a 12 year long process) for efficiencies that could speed things with no negative impact on quality or ultimate patient efficacy. A consciously planned and politically creative move by one of the managers, in a governance session pertaining to proposals to improve the speed, **netted the company between 30-60 million in savings for any product that was still in the funnel at the two year mark**. This case study is described in more detail in earlier whitepapers, but the illustration here is the impact that the creative climate in the project management team had on pipeline efficiency. The leadership team of was consciously driving for a climate of creativity in their business unit, informed by KEYS and a deeply felt accountability to the value of innovation. This same team refined what was then an innovation evaluation and governance tool labeled PPCO, to what we now call Praise-First POINt (read: Get the POINt for more details).

10. LEADERSHIP
Leadership actions demonstrate support for innovation fostering activities.

Göran Ekvall's research on innovation dynamics demonstrated that between 40% and 80% of the statistical variance for a climate of creativity in an organization is accounted for by looking at the behavior of the leader of that organization. Whether you are the Board Chair, CEO, VP, Manager or a parent, how creative your "reporting line" is will be influenced tremendously by you and your behavior. Eckert & Vehar wrote extensively about this in their book "[More Lightning, Less Thunder: How to Energize Innovation Teams](#)" and we'll pull a couple of highlights here.

Most successful middle level managers learn that a big part of how they are personally evaluated is "do they keep people from screwing up?" An important measure, to be sure. But it can too easily get out of balance such that the creativity of their people is squashed. A simple tool to learn (and one it may take a lifetime to perfect) is the Praise-First POINt tool we referred to earlier in this paper. Utilization of the tool – in part or whole depending on the moment – drives leader comportment in an innovation positive direction. The core concept of this tool is to look for what is good in new thinking before attempting to challenge or improve it. This simple change in behavior by a boss, if habituated, is the **single greatest behavioral move** we know of to foster an innovation positive climate.

There is a seductive danger for human beings as we move upwards in an organizational hierarchy. We are a species that tends to defer to those with more authority, which can create the delusion that the higher an individual ranks within the hierarchy, the brighter they are. This typically creates **arrogance** which:

- **Stifles** curiosity
- **Inhibits** learning
- **Impedes** the ability to make new connections
- **Kills** creativity
- **Ends** innovation before it has even begun

Systems of leadership development *must* drive leaders toward curiosity as a cognitive habit. The best *long-term* leaders of innovation are humble, curious, courageous, tenacious, and have passion for their work. They hold themselves to integrity with these qualities as an aspirational value system, and invite coaching from others

Success Tip! If there was one single characteristic that we could nail down as being important for an innovation inspiring leader, it would be **curiosity**.

We are all super busy and it's hard to find time to be in learning mode for anything other than what's going on in our line of responsibility. Place it in your intention to build a learning culture amongst your leaders from the very top, down to the new managers. Put opportunities for new learning on meeting agendas and place learning challenges on performance objectives. Foster and reward curiosity. And then go a step further.

Charge your executive team with strengthening their own emotional intelligence and with doing the same down their reporting lines. Most of the human factor issues that impede personal creative thinking, group creativity and delivery of innovation can be traced back to low personal awareness and skill in managing the thoughts that drive behavior.

Everything that becomes innovation requires productive human interaction. Wise, mature people do better at this than unaware, immature folks. Go after mechanisms to support a wisdom culture. Your shareholders, employees, and customers will be extremely appreciative that you did.

for the sure-to-come times when they are out of integrity with these values. They have incorporated a belief system that understands there is no such thing as a grown-up. Just grow*ing*-ups and stuck people. No one is *one or the other* all of the time. They are gentler in their judgment of the growth needs of others because they see the growth needs in themselves, thereby reducing the time wasting defensiveness that gets in the way of improvement.

To truly help people be great, an *Innovation Leader* must be an example of being "great" themselves. Otherwise their inspirational attempts lack any real power or energy to cause effect, and they appear to people as hypocrites. If you want to build a sustained innovation culture, you must have a leadership development program, and performance metrics, that develop the kind of leader we have described above.

LEADERSHIP
Real-world Examples:

Forbes announced their "The World's Most Innovative Companies" list in August 2013. **Apple Inc.** had fallen off the top of the innovation list and now sits at 79.

Why? The key point for us is that arrogance of *being the leader that has all the ideas* doesn't build a sustainable innovative company. To quote the Forbes article, "The more enlightened leaders know the importance of building creative capabilities in others. As **SalesForce** founder Marc Benioff emphatically put it during a recent conversation with us, 'I can't do it all. I don't have all the ideas. That isn't my job. **My job is to build a culture of innovation.** That's something we try to enforce. We encourage it. We value it. We notice it. We compensate for it. We require it.'"

SalesForce, by the way, has been No. 1 on the "Innovative Companies" list for the last three years running.

We have been working with a senior leader in the **Building Products Industry** who is responsible for growing an innovation culture in his organization, and is making great strides. His general curiosity, across many domains, is an inspiration to us. When he was an expectant father of his firstborn, he asked three other CEOs with whom he was having dinner for some man-to-man advice on parenting and relationship management. He got two hours of insightful commentary and advice from men who had already negotiated this process in various forms. He asked. He showed vulnerability. **His humility, curiosity, and courage served him, as it does his business.**

11. EXPLORATION
Time or flexibility for employees to pursue creative ideas that are not their core responsibility.

The biggest complaint we hear as we work with organizations aspiring to be more innovative is "not enough time." We see this as the most difficult challenge for organizations to solve. Things like the much ballyhooed "15% of time to work on projects of your own choosing" is incredibly difficult to operationalize, even as we've described, at 3M. But the impulse is correct. So what is one to do when everyone is running at 100%+ and you want people to have time to explore and create informally? It seems obvious that the solutions are going to bucket out into three areas:

1. Find time by working smarter
2. Hire more human resource
3. Get less done by narrowing the focus

Success Tips!

Here are some things that have worked to free up more time. However, they are only useful if you then allow for some personal-choice discretionary-effort exploration:

- Decrease the inefficiency of meetings.
  - In those requiring creativity, use the Creative Problem Solving process. Consciously separate the time for divergent thinking from the convergent thinking.
  - Use trained facilitators that are from outside the realm of those who are accountable for the solutions.
- Align work with passion.
- Streamline as much of the time wasting day-to-day minutia of work as possible.
- Question strategies regularly.
  - Ask the following: ***What should we stop doing, keep doing, and start doing?***
- Bite the bullet and hire more people while at the same time creating policies that support exploration.
- Mix people up more, have more poster sessions, send people outside for training and make sure the training and development budget gets spent in varied ways. Assure that every manager is hitting a good metric with respect to hours spent in training per employee.
- Decide that you are going to create a learning organization, and put performance accountabilities in place to make it so.
- Make sure HR has not devolved solely into a litigation prevention organization and hold them accountable to find ways for the human resource to learn, explore, collaborate and invent. Expect them to decrease time wasted due to unproductive conflict by increasing emotional intelligence and productive debate.

EXPLORATION
Real-world Example:

A large **Media Company** in Germany runs a regular innovation camp in which members from different departments come together for 10 days to work on strategic challenges of the company.

The camp is **guided by an experienced innovation coach and facilitator**, and provides time and structure to engage in a deep exploration of potential avenues. Out of the last innovation camp held in March of 2013, four specific concepts for new business have been created of which three have been released for implementation by the board of directors. This is an example of a time efficient way of creating an environment that fosters collaboration and exploration.

The Executive Team at New & Improved circa 2013 taking time to explore the physical environment during a strategic planning retreat.

12. FACILITATION
Internal corps of facilitators to assist in problem solving meetings.

As previously stated, one of the least efficient processes, and largest reservoirs of potential in organizations, is meetings. For the sake of illustration, we'll divide meetings into two types: information sharing and problem solving. We'll concern ourselves primarily with the latter. The former, information sharing, can be made to take less time and free up resource with a timed agenda and a moderator. The latter, problem solving meetings, need a well thought through process plan and a facilitator. The best practice is to have that facilitator be someone from outside of the group which is holding that particular meeting. And the best facilitators are informed by the tools and process methods of Creative Problem Solving (or design thinking, which is an iteration of Creative Problem Solving).

Keep in mind that "problem solving" cuts a wide swath. It might include any combination of the content areas to follow:

- Assuring that all key information is uncovered and understood
- Defining strategy and clarifying goals
- Determining key challenges and root causes
- Generating ideas or choosing among them
- Strengthening solutions
- Building project plans
- Exploring new opportunities
- And more…

Success Tip! Be mindful to select facilitators that have strong innovation leadership skills – or at least an open mind to learning these behaviors. It is also important to make sure that they have the time and energy to be called upon to facilitate meetings. And, for goodness sake, please do yourself and your organization a favor and have them be formally trained as innovation facilitators. Facilitation with a creative intent is a skill that is best learned with a trained coach and lots of practice.

For many organizations, simply having a cadre of trained facilitators provides the quick wins they are seeking. So much time is wasted in poorly managed meetings that facilitators provide an immediate ROI simply from time saved. The creative quality of output is where you'll see the big win, however.

Because they had a clear pipeline map (see Governance above) **Centocor**, then a division of **Johnson & Johnson** and now **Janssen Biotech**, was able to see that two promising therapeutic agents were lagging in development. This knowledge allowed for the provision of focused facilitation by trained **Creative Problem Solving (CPS) facilitators to get them unstuck and deliver earlier than expected results.**

"They were challenged with seemingly impossible roadblocks, and needed some new, creative thinking as a major deadline was approaching. Once again, the CPS facilitators expertly led them to look at problems through different lenses – until actionable solutions emerged. "

-Ruth Dubinski, Strategic Planning, Centocor

Many of our clients now have a group of CPS trained facilitators on call who, while they have a "day job," are sometimes tapped to support groups needing a rapid creative solution.

One of the largest **Concrete Makers** in the western hemisphere has experienced tremendous growth. They have established and are continuing to **grow an internal core of facilitators drawn from the ranks** at their different locations. These facilitators are managers that are so passionate about their work that they self-select into taking on this additional responsibility (see *align work with passion* above).

--- END ---

The 12 Strategies for Innovation Excellence™

There you have it: **the roadmap for building an innovation culture.** We know it seems like a lot to take on, but now you have a wise perspective and a solid foundation on which to begin structuring your strategic activity. It's likely you already have some great momentum going for you in some of the 12 areas. But if you are just beginning your efforts we recommend focusing attention first on what we call the **3 Pillars**. These three strategic action areas can help you hone in on a starting point, prepare your people for evolutionary change and are a great way to remedy the initial overwhelm that happens with any large scale strategic adjustment.

SKILL

Training *ongoing* at all levels designed to strengthen organization's innovation capacity

LEADERSHIP

Leadership actions demonstrate support for innovation fostering activities.

ACCOUNTABILITY/ RECOGNITION

Leaders, managers and work-force are held *accountable* to innovation-fostering behaviors.

The Big Picture

Committed engagement of the organization along the paths described above will allow it to garner value from the full creative potential of the enterprise. If done more rapidly and with a greater degree of dedication than the competitive set, relative share of market value will be increased.

But there is something more.

Every employee has discretionary effort which they can choose to make available to the organization, or actively choose not to. The research on employee engagement makes clear that when the employee sees an organization to be fully concerned with its employees' development as people, and when that organization is creating exceptional employee experiences, the business garners way more than 40 productive hours of mind-share a week from that employee. Building innovation culture is perhaps the most effective way to create exceptional employee experiences. Where this is happening, we see positive movement in all of

the important metrics that are known to be influenced by engagement. Externally, you'll see increases in customer loyalty, net promoter scores, and industry rankings. Traditional HR metrics attending to turnover, absenteeism, attendance and wellness move positively. Financial metrics, from higher sales per square foot, to return on equity, to gross profit, will increase. And clearly, operational metrics improve with respect to quality, velocity, productivity, and safety.

But there is still *more.*

If you develop an employee to be a better contributor to innovation – a better creative problem solver – they will not lose those skills on their way home from work. They bring them to their families, communities, and volunteer efforts. When you support an employee to make a difference in the world *outside* of work via the skills you help them develop *at* work, you create a virtuous cycle of good. We all see the need for this, and the vast majority of us want to be part of the solution to difficult issues, not part of the problem.

> *You're creating a virtuous cycle of good.*
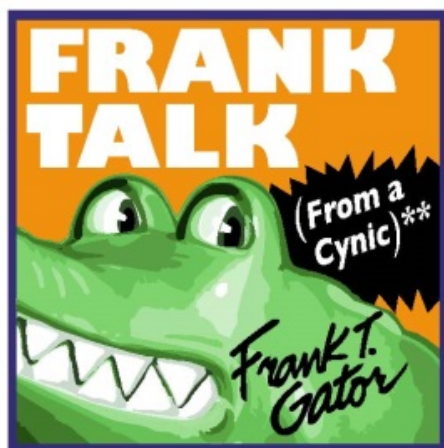
We're tired of the steady unending meeting of the ***"Ain't it awful club"*** that has infused itself into our culture since the advent of the 24hr news program business model. The promise of improved innovation culture is the beginning of a new and improved world. A world where we move forward wisely for everyone's good. Where we lose interest in complaining and replace that time toilet with improved skill in making a positive difference. Where complexity is a call to dauntlessly energize our curious, exploratory desire to *deeply* understand that complexity, then act wisely within it.

> *Dear **Ain't it Awful Club…** We quit!*

When you step onto the path described in these 12 Strategic Action Areas, you are contributing to the culture shift that is so direly needed at this juncture in history. A humble, curious, creative, and courageous culture that breaks with the cycle of nay-saying and moves to a culture of possibility creation and collaborative solution finding. We want to be part of that. We hope you do too. Remember, thinking big isn't always as crazy as it seems. **And we like to think BIG!**