

Is Your Culture Innovation-Ready?

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Is Your Culture Innovation-Ready? Part I

The CEO of your company just made the announcement: "Our focus now and into the future, is on innovation as a core strategy. We must innovate to grow the business and compete better within global markets." OR "For the past several years we've focused on driving savings to the bottom line, now we need to focus more on growing the top line."

You think "Great news! But are we really READY?"

If you have not yet experienced a version of this, chances are you will soon. In a 2006 IBM study of 765 CEO's globally, 65% report "they expect to make fundamental changes in their businesses over the next two years." Innovation in the business model (strategy, partnerships) tops the list of desired changes.

There has never been a better moment for strategic leadership by HR and OD in large companies today. To help your leaders know if your organization *is* ready, read on to consider and evaluate the following:

What is the context that is driving greater innovation in today's workplaces?

Is innovation linked to your strategy . and what are you innovating *for*?

What are three innovation-killing cultures and remedies you can take?

Innovation: The Context

Several trends point to a very different future for how business will be done in the next few years:

- ◆ Dominant Business Model of Today: Fill the product pipeline
- ◆ Business Model of Tomorrow: Products to market faster

- ◆ Business Model of Today: Customer service
- ◆ Business Model of Tomorrow: Customer partnerships

- ◆ Business Model of Today: Strategy is the rulebook
- ◆ Business Model of Tomorrow: Strategy is a guideline

- ◆ Business Model of Today: Competitive advantage achieved through quality, price, service
- ◆ Business Model of Tomorrow: Competitive advantage achieved through reputation, social responsibility, relationships

- ◆ Business Model of Today: Execution through coordination, procedure, and off-shoring

- ◆ Business Model of Tomorrow: Execution through collaboration - breaking down traditional boundaries of customer, competitor, vendor, supplier
- ◆ Business Model of Today: Global economy: Driven by efficiency and cost; focus on bottom line
- ◆ Business Model of Tomorrow: Creativity economy: Driven by innovation and design; grow top line

So what does culture have to do with it?

In their groundbreaking book "*Execution*" Charan and Bossidy say: "We don't think ourselves into a new way of acting, we act ourselves into a new way of thinking."

The same IBM study referenced earlier, reports that where innovation has not taken hold in companies, the cause were cultural factors such as employees who are burned out on change. People in today's organizations are moving very fast, doing more work with fewer people, and in many cases, reeling from the fast pace of change; downsizing, restructuring, outsourcing, and off-shoring.

This is not a psychological or structural condition that will support widespread acts of creativity and innovation.

Innovation thrives in a culture where leaders make room for it, by putting in place systems, structures, and processes that promote candor, empower people, encourage unsanctioned cross-functional collaboration, and fund experimentation. It can look messy, chaotic, and non-orderly compared to the zipped up, six-sigma, no-risk cultures that dominate in all but the most entrepreneurial of companies.

Above all, cultures of innovation challenge and redefine traditional beliefs and assumptions about power, authority, and trust in ways most leaders are unequipped for.

How is innovation linked to your strategy: What are you innovating for?

The first step in driving a strategy based on innovation is defining the purpose of innovation. If leaders are going to apply innovation to their business model, their customer relationships, their process improvement efforts, they must take time to create a thorough answer to the simple questions such as "What are we innovating for?" and "What do we expect to happen as a result?"

There are three significantly different ways to drive innovation, each with its own cultural implications:

1. **Innovating through Operational Excellence** - Innovating operations today means developing cross-functional collaborative relationships and skills that help leaders align people across silos and gain multiple points of view to ensure better decisions. It is the foundation on which product and customer innovations take place - and many companies believe they have this well in-hand. This area of innovation is about making room for the *really* great ideas to take hold. At Gore & Associates (makers of Gore-Tex), people within the company (but *not* on a product development team) make the call on projects that need to be axed. One of their leaders handed out "Sharp Shooter"

trophies to the outside managers who effectively killed a project that a team may never have had the insight or courage to do on their own.

2. **Innovating the Customer Experience** - Placing the customer at the center of your strategy means developing collaborative partnerships with key customers or customer segments. This is about developing what people need and want, not building the "field of dreams." Proctor and Gamble claims that 35% of its innovation initiatives have critical components that originated outside the company.
3. **Product Innovation** -- R&D groups are listed as #7 on CEO's list of "idea sources" inside their companies - clearly a more integrated approach of this function into the organization is needed. Whirlpool has fostered innovation since the late 1990's through multiple trial-and-error efforts (this is not a short-term process). This includes asking all 61,000 employees to dream up new ideas and forming an "innovation board" that meets monthly to review new product ideas and pass good ones onto the company's nine-member executive team.

Leaders don't make a choice between these: Companies today must do all three. But you won't succeed if you try to do all three simultaneously. Mastery of one innovation strategy while building relative strength in the other two provides the greatest leverage, allows far greater competitive advantage, and helps you to differentiate. Which one dominates is a function of your industry, company, and market cycles.

An organization such as Avaya, leveraging its Bell Lab ancestry, has relied on product innovation to crank out literally hundreds of offerings, may need to shift its focus to avoid becoming commoditized through innovation of the customer experience. An organization such as Starbucks, who focused for years on streamlined operations, turns its attention to innovation that breaks down silos and boundaries and fosters collaboration between groups that have previously been external: Vendors, suppliers, and competitors.

In the end, it comes down to leadership: Innovation of the "me-too" or "wishful thinking" variety that is not supported through a clear link to strategy, training, and a long-term view, is not likely to achieve more success than past "flavor-of-the-month" change efforts.

Once you have a sense of what you are innovating for, leaders should take time to define precisely how the existing culture will both support and hinder your efforts.

Is Your Culture Innovation-Fit?

As organizations have grown larger, more complex, and are moving faster, the glue that holds it all together - culture - may have eroded your attempts to innovate.

The culture of any large organization -- defined simply as "how we work that either enables or disables strategy" - cannot perform an automatic about-face. A conscious and planned retooling of existing mindsets and behaviors will be a necessary step in organizations truly committed to innovation.

This begins with an honest assessment of your culture's ability to support it. If you are seeking a major renovation of a house, knowing what's happening with the existing structure provides a launching point.

The following three cultural types are commonly seen in today's organizations (there are

several other types). These may describe an entire organization, or a sub-culture inside a company. Whatever the case, there are patterns in each of these which will hinder your efforts to innovate.

"World According to Us".

Characteristic of highly regulated, slow-to-change or "we're the expert" industries (e.g., healthcare, airlines), where dependability and quality are top priority, this classic "we controlled our market" company loves procedure, formalized work structures, coordination, and organization. Often they have been subsidized by regulatory protection. They have a clear vision, values, and identity, but it may not be fully dialed into the customer point of view. Process is king; cost cutting is a favorite strategy.

Example: IBM in the old days.

Favorite mantra: "We already tried that" . and "Our way has always worked fine."

Innovation "Red Flags": Do "not invented here" mindsets create a block to any new idea or process? Does the organization lack a sincere inquiry or discovery of what customers, employees, vendors, or anyone outside "our world" need or want? Has over- reliance on limited "points of view" or data created a "surprise!" effect from a market shift, deregulation, or increased competition? Do turf wars and boundaries make collaboration across the customer value chain difficult or near-impossible?

Main remedy: Expand the points of view you seek and listen to. For example, a significant first step in Lou Gerstner's overhaul of IBM was Operation Bear Hug: An initiative that required his top 250 executives to interview a minimum of five customers and produce a report on that interaction. How Gerstner did this sent a clear message that IBM was going to be easier to do business with, and that the customer was going to drive everything from now on.

"Swarm, aka "We're Too Busy"

This culture resembles an ant colony: Swarm today, gone tomorrow. Usually in volatile, fast-shifting industries (eg, telecom), they live and die by short-term focus (eg, the Street's quarterly report). The place is high-energy, dynamic, people take risks, and experimenting and creativity are encouraged. Everything is about winning: "We turn on a dime 20 times an hour." Value placed on having the cool new product and being on the leading edge. Sales, market share, and market penetration are king, but consistency in the support and service end of the business may falter. As the organization grows, the constant change competes with a platform of reliable quality and stability, and people feel they are in a continuous shell game: As soon as you figure out the rules and priorities, they change. Revenues grow but the organization struggles to build a solid and consistent brand identity over time; employee burnout and turnover are common.

Example: Many technology companies struggle with this.

Favorite mantra: "I'm way too busy. No time to talk or meet."

Innovation "Red Flags": Does direction have a "flavor-of-the-month" feeling? Is communication a haphazard effort that often sends mixed signals? Do you have 700 product offerings from 5 divisions, none of whom are talking with each other? Are revenues growing but profits shrinking? Are people confused about priorities and moving in many

different directions? Are face-to-face meetings rare and it's Business-by-Blackberry? Are employees complaining about work-life balance and burnout?

Main Remedy: A well-communicated strategy and cross-functional teamwork that drives clear prioritization and consistency. In a major telecommunications organization that sought to become more of a solution-seller, the "swarm" culture was alive and well. Several leaders in the company agreed to get their divisions together in meetings and created a "buddy system" to align common goals and create an end-to-end process from the customer's point of view. This was a breakthrough from the silo-thinking and they have had to fight hard to get the time to do it in a culture where everyone is always "too busy."

Authority Without Influence

In an "authority without influence" culture, leaders overplay their power and as a result (sometimes unwittingly), disempower everyone else. This results in diminished buy-in or engagement to change. Progress is not the result of felt need, it is mandated by edict. This diffuses the positive influence leaders have on people: Coercion never creates buy-in, only compliance. Employees feel they must "tow the line" or face punishment. Strong values and a sense of security that "someone is in charge" are present. This strong culture resembles the classic "parent/child" syndrome and authority, responsibility, and accountability are a finger-pointing activity. It is often the result of a legacy of a powerful entrepreneur who made the place famous. Or maybe the place is run by golden-oldies or "good-ole-boy" networks who have been in power forever. There is strong loyalty and camaraderie, but people don't speak the truth for fear of retaliation by the "old guard" who support the dominant culture.

Examples: Enron is an extreme example. A lot of large companies experience a less dramatic version of this pattern.

Favorite mantra: "Great idea, but sounds like a career limiting move."

Innovation "Red Flags": Does a lot of the attention go to pleasing managers and leaders . even when they are out of touch with a critical reality from a customer, employees, or the marketplace? Does the boardroom exert undue power? Is there frequent decision-paralysis because "so and so has to decide"? Are there inefficiencies, "do-overs" and waste due to "delegating up" versus having clear processes that empower people?

Main remedy: Eradicate fear and build a structure to support truth-telling. This is probably one of the most difficult cultures to evolve without a change of guard at the top. Existing leaders are rarely enthusiastic about relinquishing their powerful hold, which is why most "turnaround" efforts begin with a new CEO, who in turn establishes a new team.

In dealing with any "innovation-hindering" culture pattern, any effort to move toward innovation must include four foundational practices:

1. **Widely understood organizational vision, mission, and strategy** that creates a context for "why we are innovating";
2. An **organizational structure** that drives decision-making down;
3. Effective **workforce empowerment** that includes widespread cross-functional and cross-geographical collaboration;

4. Robust **feedback systems** that turn survey data into reality-confrontation and continuous problem-solving.

Like all breakthroughs, building a culture that supports innovation does not happen with one "aha" declaration by a senior executive. It is a day-by-day, years-long process of cultivating an environment that allows the dormant and rich soil of your people's minds to be brought forth into the light. Don't start over, leverage the best of what you already have.

Now there's an innovative idea whose time has truly arrived.

Is Your Culture Ready for Innovation? Part Two

In Part One of "Is Your Culture Ready for Innovation?", we explored the context for why companies are moving toward innovation, three ways you can innovate, and three cultural types that will hinder innovation. In Part Two, we outline ways you can build a culture that better supports your efforts to innovate.

Most companies will need to evolve their culture if they are going to optimize these drivers of the business model of tomorrow:

- ◆ Business Model Today: Fill the product pipeline
- ◆ Business Model Tomorrow: Speed to market
- ◆ Business Model Today: Customer service
- ◆ Business Model Tomorrow: Customer partnerships
- ◆ Business Model Today: Strategy is the rulebook
- ◆ Business Model Tomorrow: Strategy is a guideline
- ◆ Business Model Today: Competitive advantage is achieved through quality, price, and service
- ◆ Business Model Tomorrow: Competitive advantage achieved through reputation, social responsibility, relationships
- ◆ Business Model Today: Execution through coordination, process improvement, and off-shoring
- ◆ Business Model Tomorrow: Execution through collaboration-breaking down traditional boundaries of customer, competitor, vendor, supplier
- ◆ Business Model Today: Driven by efficiency and cost; focus on bottom line
- ◆ Business Model Tomorrow: Driven by innovation and design; grow top line

Building the business model of tomorrow will be easier for organizations that have the following in place:

- ◆ A strong identity in the marketplace;
- ◆ A matrix organizational structure;
- ◆ Senior leadership who has identified a clear vision, strategy, and core values (which may or may not be explicitly stated or known);
- ◆ Regular processes for gathering and using customer and employee data;

- ◆ Learning and best practices which are shared across the organization;
- ◆ "Pockets of innovation" inside the company are modeled and expanded;
- ◆ Strong skills training programs engage people in continuous learning;
- ◆ Empowerment is an idea which leaders support in theory if not in practice.

Nine Building Blocks for a Culture of Innovation

The first step in building a culture of innovation happens when a strong leader says "Innovation is a critical driver and we must invest in it."

But investing in innovation doesn't necessarily make it happen. Recently, a Booz Allen Hamilton report shows that innovation spending has little direct impact on company performance. But HOW that money is spent makes a huge difference. Further, Boston Consulting Group's recent report "Innovation Metrics 2006" shows that companies are measuring more traditional success metrics that are not necessarily in alignment with what will drive innovative behavior in their organizations.

Bringing in a consultant or a workshop to stimulate innovation is where most leaders think to start, but is only a tiny piece of the solution. To reverse the corporate culture trend of risk-aversion will be challenging. It will require focused leadership and a systemic approach to embed the mindsets and behaviors of creativity across the entire organization.

That's the work of leveraging culture.

Innovation cannot thrive unless you have worked hard to instill a culture that promotes candor, empowers its people, encourages cross-functional collaboration, and rewards experimentation. Above all, true "cultures of innovation" challenge and redefine traditional beliefs and assumptions about power, authority, and trust in ways today's leaders are often unprepared for.

The following are nine best practices that companies use to build a culture of innovation. They can help you make lasting changes that harness and drive organic, sustainable growth:

1. Define the context for innovation: Leaders must decide based on the company strategy, what type of innovation is the highest leverage opportunity, e.g: Licensing technology through new relationships? New products or services? Delivery and distribution methods? Innovation will falter without a clearly stated purpose and outcome, and a story for what needs to change to achieve it.

Use the Five-Question test for good communication to build this "business case":

- i. Why innovation and why now?
 - ii. What happens if we don't?
 - iii. What does innovation look like in our organization?
 - iv. What's in it for me to participate, and what's expected of me?
 - v. How will the organization's leadership support it??
2. Relinquish centralized command-and-control structures to a modern organizational design. Think beyond the matrix. The goal is to put the right power in the hands of the people closest to the customer (Starbucks, Ritz Carlton). At Google, the layer of management overseeing the engineering group actually hindered ideas and experimentation. They changed the structure so autonomous teams are fully responsible

and accountable for their project's success, and the leader's role is to remove obstacles instead of policing progress.

3. Create "out-on-a-limb" pockets of experimentation which are empowered and autonomous to create and implement some wild ideas. Target "innovation-ripe" areas of the organization, not necessarily relying only on R&D or product development. Alan Lafley, CEO of Procter and Gamble says "We want to design the purchasing experience . every component of the product . the communication experience . and the user experience. It's all about design. And that's hard for people to come to grips with."
4. Address your reward and recognition program to encourage "pockets of innovation" to emerge (they're already present but often stifled). This doesn't require a complete overhaul of your compensation system. Think simple and be creative. At IBM Research, engineers are evaluated on both one- and three-year time frames - the one-year determines the bonus, while the three-year period decides rank and salary. Your effort must also eradicate punishing forces for innovation-killing behaviors: "That's already been tried, it won't work," "Check with me next time before you _____" or "I'll get back to you on that." However well-intended, leaders send mixed signals with overly directive or censoring behavior. Find examples of "innovation heroics" . and establish a program to visibly and publicly recognize them.
5. Build feedback systems that focus on planned failure. Most designers, inventors, and scientists take the road less traveled: They focus on what can go wrong, to make failure - and the learning it provides - happen sooner. Think about creating "Failure Parties" as a way to reward creative effort in the right places. Leaders must share stories about their own mistakes, and demonstrate a willingness to teach the organization about the risk-failure tolerance level (especially in regulated or safety-focused industries, e.g., transportation, healthcare, or pharmaceutical). What is and is not acceptable risk-taking? What does failure mean? Where do we learn from mistakes AND work to prevent them at the same time?
6. Build a meeting culture that supports innovation. Meetings are where the culture of an organization is held and brought to life. Therefore, changing a meeting culture is a fast and effective way to infuse an organization with innovation energy. Meeting principles for innovation include: Good process facilitation skill. Visual tools. Clear, focused agendas. Short length. Multiple points of view from unlikely sources. Candid dialogue versus approval seeking.
7. Relentlessly remove barriers to communication between senior leaders, managers, and employees. Most large organizations don't work hard enough at this, and as a result, boundaries reinforce mistrust. Create ongoing forums that open dialogue between leaders, employees, and others. Exposing leaders to opinions and data from employees will strengthen strategy and direction. Establish teamwork and communication methods that allow free-flowing interaction between functions, geography and hierarchy -- without retaliation or turf wars.
8. Select and train creative change agents. Consider creating senior level positions with the word "Innovation" or "Entrepreneur" in them. Identify creative thinkers and visibly promote them to lead your innovation initiatives, if they have cultivated informal power and social skills within the existing system. Then, teach them a common process and language for how to create and foster innovation.
9. Measure innovation differently than how you currently define success. If you are serious about innovation, you'll have to invest in it . and measure it. New skills and

technology are only the beginning: Most organizations are overly driven by short-term measures of successful performance which kill innovation in subtle and powerful ways. If you measure more upstream activities where ideas originate, you send a message that in-process activities are as important as results, and give people a more short-term way to feel progress wins.

In a recent Boston Consulting Group study, nearly 90% of executives surveyed believe "organic growth through innovation is essential for success in my industry," and 74 percent say their companies plan to increase spending on innovation this year.

It is inevitable that leaders must tap a deeper well of innovation to compete in the coming decade.

But it won't come from today's approaches. In a risk-averse, "meet the numbers" climate, it remains to be seen which leaders will take the courageous step to carry their business into a true renaissance of greatness.

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