Is Your Culture Innovation Ready? Part II

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In Part One of "Is Your Culture Ready for Innovation? (August 2006 Link & Learn), 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 betters supports your efforts to innovate.

In the new business environment, most companies will need to evolve their culture if they are going to optimize these critical drivers of the knowledge economy:

Existing strengths in an organization which will support these critical drivers include:

- A strong identity in the marketplace.
- A matrix organizational structure.

Speed to Market

Collaborative partnerships and increased involvement between leaders, employees, customers, and other stakeholders.

Strategy is very flexible and everyone knows what it is.

Competitive advantage is achieved through reputation, social responsibility, and relationships.

Execution that redefines traditional boundaries between customer, competitor, vendor, supplier, and separate departments.

Creativity, innovation, and design trump cost: Grow the top line.

- 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":

    a.   Why innovation and why now?
    b.   What happens if we don't?
    c.   What does innovation look like in our organization?
    d.   What's in it for me to participate, and what's expected of me?
    e.   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 Proctor 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 censuring 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.** This is a fast and effective way to infuse an organization with new energy. Meeting principles for innovation include: Good process facilitation skill. 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 help their people cross over and carry their business into a true renaissance of greatness.

About the Authors:
Lisa Jackson and Gerry Schmidt are corporate culture experts and authors of the book "Transforming Corporate Culture: 9 Natural Truths for Being Fit to Compete." They offer a proven method to teach leaders how to evolve their corporate cultures to perform better, innovate faster, and show they truly care about people in an unprecedented era of rapid change and transformation.

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