



# Creating the Innovation Culture

Geniuses, Champions, and Leaders

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## Introduction

As the business world becomes increasingly complex and still more astonishingly competitive, companies are turning to innovation as one of the few durable sources of competitive advantage. Innovation is now among the top priorities for the majority of the world's large companies.

The necessity of innovation is now universally accepted, but beyond their enthusiasm for bright ideas, most leaders know that to be successful over the long term they have to develop a strong innovation culture.

Such a culture can be recognized as an organization that is known externally in the marketplace as a genuine innovator, and equally that it is known internally among the people in the organization as a dynamic, innovation-friendly place to be.

Organizations that have attained this culture produce innovations of all types - breakthroughs, useful incremental changes, and even radically new ways of doing business, and they do so with regularity.

And actually, the concept of regularity is a good test to see if a company really has an innovation culture. How frequently interesting new ideas, concepts, products, or services are produced? If new stuff seems to be coming out all the time, in different ways, and if the internal discussion in the organization is focused largely on innovation, then it's likely that an innovation culture exists there.

But supposing an innovation culture doesn't yet exist in your organization. Then how can you make it happen? How do organizations develop an innovation culture? Who should be involved in the innovation process? What roles should they play?

Answering these questions is the purpose of this white paper.

## Culture and Innovation Culture

A culture is an expression of a group of people. Every culture reflects the current beliefs and behaviors of its people, as well as the history that shaped them. History is an essential attribute of culture because one of culture's defining characteristics is that it persists over time; it gets transmitted from the present to the future with notable continuity. Hence, when we reflect on our own situation today, we can see that the past interacts with new forces from our own times, and the aggregate picture is exactly what constitutes our culture right now.

The *innovation* culture, of course, is likewise an expression of people, their past, and their current beliefs, ideas, and behaviors. They make *innovation* happen, and they do so consistently over time.

Since the innovation culture is not all that common among today's organizations, we know that it's not so easy to create one. A key reason for this is that the characteristics needed to achieve an innovation culture are not seen as the same ones that are needed in successful companies.

For example, it's only a slight exaggeration to say that companies love stability and predictability because these factors make it easier to earn profits; innovation, however, is about adaptation and change, which can be very difficult to live with or to profit from.

Companies seem to adore repetition because it suggests business scalability, but innovation is all about novelty and the unexpected.

People in companies get engrossed in corporate politics and what's in it for me, while innovators upset the apple cart, and move the cheese!

Overall, the broad trend of modern management is toward standardization, rationalization, and simplification, to make things run smoothly and efficiently. None of these factors necessarily favor innovation, and all of them together can conspire to drive out innovation entirely. It doesn't have to be that way, but often it is. Innovation, after all, can also be a powerful force in support of simplification and efficiency.

This, actually, is where the genius of firms like Apple, Cisco, and Toyota lies, because their leaders seem to have found a way to standardize the process of innovation. I know that the last sentence seems to express a contradiction - how do you standardize innovation? But that's exactly the point (and that's the same point that is made in the title of my book *Permanent Innovation*). They have created a true innovation culture, which is precisely what it means to make the creation of novelty a consistent output of an organization's culture. At Toyota, the fruits of innovation in manufacturing have been tremendous breakthroughs in simplification, resulting in a company that is universally recognized as the most efficient auto manufacturer on the planet.

The means of doing this, and likewise the commitment to doing it, have originated at the very top management of the company. It is a remarkably rare feat, and very few organizations have matched it.

In contrast to innovation-as-normalcy, laggards tend to recognize the need for innovation only in crisis situations when it becomes evident that standardization has failed. Innovation pursued in this context means that we change only when we have to. And when we have to do it, we generally hate it, because it means we have to give something up that we prefer to keep. Quite often, what we want to keep is the old way, even though the market is telling us that the old way isn't good enough any more. Hence the strategic power of capitalism, a remarkable self-organizing process of introducing novelty into markets through the dynamics of competition.

Companies die in this process; they get thrown out entirely when they fail to adapt. When standardization has triumphed totally over innovation, then it may just be too late.

In the language of systems thinking, the function of management is to eliminate "variation," which is, broadly, the tendency of things to go off uncontrolled in all directions. Excessive variation is absolutely the enemy of profitability; indeed, the entire function of quality control and six sigma are focused on eliminating unwanted variety.

In contrast, the purpose of innovation is precisely to create a particular form of variation, variety that is valuable novelty. Too often, however, the valued baby variety is thrown out with the unwanted bathwater variation.

## Innovation or Acquisition?

I mentioned Cisco as an example of the innovation culture, but if you know the company that might raise a question in your mind, because if Cisco's operating model is known for anything, it's the fervent path of growth-by-acquisition that the company has followed for more than a decade. Since it was founded in 1984, Cisco has acquired more than 100 companies (and reports that more than 70% of these acquisitions have met or exceeded expectations).

Cisco's acquisition strategy generally targets smaller companies that have developed innovative new products, but the key to making these acquisitions pay over the long term is the company's ability to retain the talented engineers and managers from the acquired companies. They've been very successful at this, bolstered of course by the company's increasing stock value.

Cisco's innovation culture also helps, and with R&D investment of more than \$3 billion per year, the company strikes an effective balance between internally-driven and externally-driven innovation.

As the dominant player in its industry, Cisco is better positioned than most companies to grow through acquisitions, as most of its smaller competitors simply don't have the capital strength and market dominance to be attractive acquirers. In response, the venture capital industry routinely funds start-up companies that address new market opportunities, in the hopes of becoming acquired by Cisco. This is an example of how an innovation culture extends into the broader ecosystem surrounding a successful company.

In this case, management by variety elimination and innovation by variety creation are mistakenly seen as the same.

Hence, unless innovation is a priority of *managers*, it will be omitted from *management*. And it very often is, either because managers fail to achieve innovation, or because they fail to try. It takes a great deal of insight to attain innovation on any kind, and to do so on a consistent basis in the face of so much anti-innovation momentum is an outright triumph.

Now, this does not mean that individual people - workers, managers, whomever - are against innovation. In fact, they're probably for it; most people actually love innovation: new stuff, new movies, new music, new everything. But the very spirit and process of contemporary organizations, as expressed in how we organize large groups of people to work, often makes innovation extraordinarily difficult, and hence the rarity of the innovation culture.

Here's a little test. How many companies can you think of that genuinely have an innovation culture? Five? Ten?

It's a subjective question, of course, and maybe you can think of 20, or even 100. But I would venture to guess that you don't think of that many companies as innovative. And you'd probably like your own company to be more innovative than it is today. Which means you see the benefits of innovation and you want your company to be more innovative. You want, that is, to develop the innovation culture.

How?

The innovation culture comes into being when people throughout the organization actively engage in filling three essential roles:

We look for insights to develop into ideas, and then into value-adding innovations. This is what innovation's Creative Geniuses do.

We support innovation by helping creative people overcome the obstacles that otherwise inevitably impede their innovation efforts. This is what Innovation Champions do.

And we define our firm's expectations and policies to favor innovation. This is what Innovation Leaders do.

Below, we'll look at each of these groups in turn.

But first, to give you an overview of the challenges that the geniuses, champions, and leaders will probably face is shown in the table below. The old, status quo-seeking worldview on the left, and the innovation culture on the right.

Of course this chart simplifies many realities that are considerably more complex. Nevertheless, the intent is to highlight important underlying concepts to be thinking about as you set about to create the dynamic new culture in your organization.

Scan through the list and see how many of the attributes shown on the left reflect your thinking, or the behavior of your organization. On the right, you'll see the corresponding idea of how it might become different in a setting that favors innovation

### The Innovation Culture Table

	<b>Status Quo Culture</b>	<b>Innovation Culture</b>
<b>1.</b>	Predictability	Un-predictability
<b>2.</b>	Seek stability	Seek novelty
<b>3.</b>	Focus on core competence	Focus on edge competence
<b>4.</b>	High success rate	High failure rate
<b>5.</b>	Reinforce the organizational hierarchy	Reinforce organizational networks
<b>6.</b>	Fear the hierarchy	Focus on creative tension
<b>7.</b>	Avoid surprises	Embrace surprises
<b>8.</b>	Focus on inside knowledge	Combine inside and outside knowledge
<b>9.</b>	Easy to live with	Hard to live with
<b>10.</b>	Corporate politics	Moving the cheese
<b>11.</b>	Efficiency through standardization	Efficiency through innovation
<b>12.</b>	Extend the status quo	Abandon the status quo
<b>13.</b>	Avoid change	Embrace change
<b>14.</b>	Measure stability	Measure innovation
<b>15.</b>	Look for data to confirm existing management models	Look for data to contradict existing management models
<b>16.</b>	Look for certainty	Embrace ambiguity

To understand these three roles in more detail, let's take a look at each of them in turn.

## Innovation's Creative Geniuses

Who comes up with the critical insights that are innovation's beginnings, and then turns these insights into ideas, and ideas into innovations? The people who do this are Creative Geniuses, and they work everywhere in the organization. They may also work outside, in the extended ecosystem of suppliers, partners, and advisors. They may also be customers, as in some industries customers provide the vast majority of innovation ideas. They may also be and even non-customers; tapping into their beliefs and behaviors can be a powerful growth strategy.

Creative geniuses are often the individuals who bridge the gap between the organization and its customers, front line workers. They may also be senior managers, who, after all, have plenty of exposure to new trends and new ideas. And they may also be middle managers, who are uniquely positioned at the crossroads of many information flows to spot innovation opportunities that others may have missed.

If it seems like a stretch to label these people as “geniuses,” let me explain the rationale for this term. We will not innovate if we fall into the trap of accepting everything the way it is today, so making innovations requires that we see things differently. Hence, we have to overcome institutional and bureaucratic inertia that may burden our thinking process, and challenge ourselves to see beyond the conventional viewpoint. This fits perfectly with the dictionary, where genius is defined as “exceptional natural capacity shown in creative and original work.”

Your idea of a creative genius could be Leonardo or Michelangelo, but chances are you don't have many of them in your firm. So you may wonder how, among so many workers in your firm, you'll identify the creative ones? Who are the creative geniuses? But this, actually, is the wrong approach.

A more useful viewpoint is to assume that given the opportunity and the context, just about *everyone* in the organization can be a creative genius. Starting from this premise means that it's up to the leaders and champions to remove the obstacles that are holding others back.

This idea that everyone in the organization is a creative genius is certainly a significant departure from how things used to be. In the past, people in front line roles were often specifically instructed *not* to be thinkers, not to have ideas, and certainly not to ask questions. They were supposed to perform pre-defined roles in a repetitive way.

Today, of course, it's the opposite. Today we know that front line workers have a unique and invaluable perspective that, with the proper encouragement, can lead to innovation in many dimensions. Hence, the average Toyota worker, including those working on the assembly lines, is said to contribute on average more than one hundred ideas each year. This is how

creative genius gets tapped, and how it contributes to the greatness of a great company.

The key enabler of creative genius is the ability and willingness to see things not only for what they are, but for what they could be. This difference is often called creative tension, and it has been a powerful force of creative endeavor throughout human history. In the arts, the sciences, and in business people who feel creative tension are intrinsically motivated and often feel compelled to make change. They long to bring to reality that which they have imagined or envisioned, and they work with dedication and persistence to overcome the obstacles they may encounter along the way.

For example, Jeff Bezos articulated a vision of a radically different online consumer marketplace that took many years to prove; Fred Smith established FedEx over many years and countless obstacles; and Chester Carlson, the inventor of xerography, labored for years to achieve his vision, and then for many more years to commercialize it, overcoming massive obstacles in both phases of his project. Entrepreneurs like these exemplify entrepreneurial insight because they see how a business, a product, a service can be different and better than what currently exists, and they have the drive to make it happen.

Hence, overcoming obstacles may be as critical a part of their genius as are their visionary insights, but what if they're not entrepreneurs or they don't have the political skills to take on the bureaucracy? Then it's up to innovation champions to help them.

Another attribute that often helps geniuses is that they have a deep insider knowledge of an industry, but they also bring an outsiders perspective to it. That is, because they are not willing to be satisfied merely with what currently exists, they often look for new knowledge outside of their own fields, and this outsider perspective helps them to see things differently, to recognize opportunities that others have missed.

In fact, just about every breakthrough business idea in recent history reflects this insider-outsider duality. The overwhelming global success of Starbucks, for example, was not driven by the company's original founders, who had in fact a narrow view of their business, but by outsider Howard Schultz, who came to Starbucks with a vision of a much broader market than the founders had imagined.

Another example is Southwest Airlines, which was not created by "airline people," but by a pair of lawyers who understood a need that their competitors had not recognized.

Likewise, many great companies including Toyota's Scion, GM's Saturn, Home Depot, McDonald's, as well as Amazon and FedEx, were originated by people who combined insider's knowledge with an outsider's willingness to do things differently. Their universal goal was to meet customer needs better than they had previously been met.



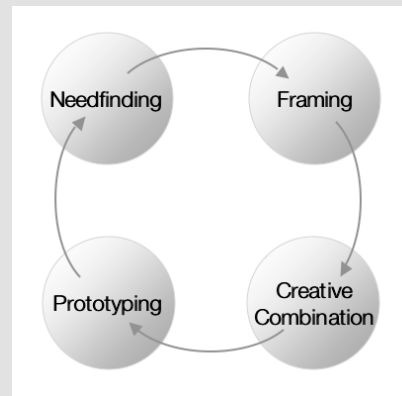
Most executives know that outside knowledge is critical, and a recent McKinsey study notes that 75% of them report getting new ideas as a result of interaction with outsiders such as suppliers, peers, and partners. You can apply the same underlying principle by ensuring that creative geniuses inside your firm have access to a broad range of experiences beyond the boundaries of their department or their organization; that they have opportunities to explore into the edges where new experiences and new insights are often found.

The details of creative work come intuitively to some people, while others need coaching and perhaps also training to master it. But even those who approach creativity with ease can still benefit from a small bit of structure to help them organize their efforts. The purpose of the innovation cycle, described to the right, is to help guide the process, keeping in mind that it's best not to approach it dogmatically, but simply as a guideline that will probably never be followed in a rigid fashion.

The practice required to master the creative cycle takes time, and thus a critical element that supports the flowering of creative genius is time to pursue insights, and likewise time to work on the resulting ideas. If the pressure of the day-to-day is so great that there's no time for new ideas, then the flow of innovation will dry up. But if people have time to explore, to learn, and to discuss, then they can create great things, which is why companies like Google and 3M have, as a matter of company policy, invite people to spend up to 20% of their time working on projects of their own choosing. For there is creative genius in each of us, and it may take only the right mix context, curiosity, support and environment for it to come abundantly forth.

## The Innovation Cycle

To turn creative insights into value, creative geniuses can benefit by the application of four specific innovation tools that are particularly important for harnessing creativity in the innovation process: needfinding, framing, creative combination and prototyping. These four constitute the Innovation Cycle.



The Innovation Cycle

**Needfinding** is a process of looking for new opportunities. When researchers want to understand the customer's experience, they want to know it as customers themselves experience it. They look for situations such as gaps in service, needs that are not met, and workarounds where people have to go to unusual extremes to solve a problem, because all of these situations constitute possible opportunities.

An important dimension of effective needfinding has to do with where you choose to search. **Here we make the distinction between "core" and "edge."** Core refers to markets, services, products, and customers that are well understood, "typical," and already targeted. Edge refers to extreme users and non-users, those whose needs or uses are not considered typical at all.

In traditional practice, we want to understand our core customers, just like we want to master our core competences.

## The Innovation Cycle continued

In the forward-looking process of needfinding, however, we expect to learn much more from the edge than we can from the core.

Learning about the edge may require us to spend time with people that we're not used to being with, and require us to understand what may be a much different thinking process.

An example of looking on the edge is Toyota's Scion brand, which is targeted not at mainstream baby boomers, but at the their rebellious Gen Y children and grandchildren. Before launching the brand, the Scion development team studied these new consumers in their own environments, including edge environments like tattoo parlors. And then after the brand was introduced, the company reinforced its rebel positioning by becoming the (only) official sponsor of a major American tattoo festival, among many other promotional efforts. The company was wildly successful, exceeding its first-year sales forecast by 300%.

In times of rapid change, as these times are, it can be quite dangerous to remain focused only on the core, because the core can dissolve with surprising speed. The edge, on the other hand, may foretell the future, and help you to target innovations that will enable the firm to adapt to emerging market requirements.

**Framing** is the next step in the innovation cycle. It's what happens when you gather a set of observations and look for the important patterns. The term framing refers to the process of choosing the most useful 'frame,' as in framework, through which to interpret the customer's experience.

After you develop some frames, some ways to interpret what you've seen, then the process turns to **creative combination**, which happens when needfinding and framing come together, when the images and

impressions are gathered together and the discussion turns to creating the best options to address the identified needs and the conceptualized frames. Here the innovation process moves beyond individual efforts to broader teams, because when talking through the options a group of people almost always achieves better outcomes than when individuals try to sort it out alone.

Diversity in these teams is important, because testing ideas against many different points of view will result in more robust concepts and solutions, leading to stronger business opportunities.

Ideas that emerge as worthy of detailed study are then prototyped. The goal is to **prototype** as quickly as possible so that the learning process can be accelerated, and you find out as quickly as possible that either it's an idea worth more investment, or one that should be shelved.

Every idea worthy of further development will find its way through the cycle many times, as progressive refinement comes through many iterations of thought, design, and testing. The first prototypes are never the final ones, but as the work proceeds the nature of the inquiry naturally evolves to finer and finer levels of detail. Along the way, needs and frames are tested, new areas are explored for creative combination opportunities, and the final prototypes approach the level of a finished product or service concept.

The common root underlying all the steps in the innovation cycle is know-how. These are skills that can be learned, and as with any practical skill, the route to better performance is practice.

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The innovation cycle described here is a very specific case of the much broader topic of creativity. There are many different models of the creative process, and a lot of them provide helpful guidance once you get deeply involved in the search for innovation. As people progress toward the mastery of innovation, many will naturally become interested in learning more about creativity itself, and they will certainly find that there is an abundance of useful resources.

## Innovation Champions

An Innovation Champion is an individual or a team of people who work at innovation by promoting, encouraging, prodding, supporting, and driving innovation in their organizations. They do this in spontaneous moments of insight and in ad-hoc initiatives, as well as in highly structured innovation programs.

Hence, innovation champions build the *practical* means for effective innovation. They take direct responsibility for finding creative thinkers and encouraging them to think and work in new ways; they help people seek new experiences that may spark new ideas; and they create a regular operations context in which sharing and developing new ideas is the norm.

The core of what Champions do to support and attain innovation thus revolves around two linked activities, building collaboration, and building the trust upon which effective collaboration occurs. In fact, it's not an exaggeration to say that the culture of innovation is built upon a culture of collaboration, because innovation is a collaborative endeavor, one that requires the participation of many different people who may be working inside and outside the organization. Or stated from the opposite perspective, there is little innovation without collaboration, and there is no collaboration without trust.

While they may be anywhere in the organization, including in senior management positions, line management roles, staff, or front line operations roles, the specific nature of the Innovation Champions role is to function in the middle, to provide the bridge between the strategic directives of senior managers and the day to day focus of front line workers.

In smaller or more compact organizations, and occasionally in larger ones, too, innovation champions are often senior leaders themselves, who have strategic roles as well as operational management responsibilities. The renowned HP practice of management-by-walking-around, MBWA, was a great innovation champion technique for learning about innovation efforts, and supporting them. One of the reasons it worked so well is that the founders of the company were the ones doing it. MBWA kept Hewlett and Packard in touch with what was happening in the core of the company, and helped them link their strategic thinking with day-to-day thoughts, questions, and opportunities of a great many people around them.

But regardless of the size of the firm or where you may sit in the org chart, the key is that champions provide practical support and guidance for innovation. Thus, champions are enablers who work as facilitators and supporters and play a critical, hands-on role in nurturing innovation efforts throughout their organizations.

Champions are usually persistent networkers who are in contact with many people and who know what's going on many levels. They know who has

skills, talents and resources, and they find out who needs them, and then they put them together to accelerate innovation progress. They also want to know about needs, and they spend a lot of time learning about what's not working so that they can point innovators toward likely innovation opportunities.

They spend a lot of their time helping others to develop their skills through coaching and mentoring. They also look for learning opportunities to share with others, in the form of meetings, discussions, external events, and perhaps even trainings. They gather interesting materials - books, web sites, papers, articles - and they distribute them broadly, helping people to discover useful new information. One R&D director that we knew became the unofficial book dealer for his executive team, keeping multiple copies of about 25 different books, articles, and magazines in his inventory so he was ready to respond to questions and conversations with helpful resources. Every time I went to see him, I would leave with one or two things to read that were extremely well chosen for the concerns of moment.

In the language of Malcolm Gladwell's *The Tipping Point*, Innovation Champions function in all three roles that are essential to the spread of new ideas: they are *mavens*, who have deep knowledge that they are keen to share, *salesman* who influence others to take action, and *connectors* who have strong relationships with many people. [For a review of *The Tipping Point* please go to [http://www.innovationlabs.com/tipping\\_point.html](http://www.innovationlabs.com/tipping_point.html).]

Another key role for Champions is building the infrastructure that supports innovation. This infrastructure may involve various types of collaboration and communication tools, including online idea repositories and wikis, knowledge

## Innovation & Failure

As managers, Innovation Champions may be involved in the oversight and review of particular projects. Here they have a critical role to play, because the effective pursuit of innovation should necessarily involve a significant degree of failure, and failure is usually a very sensitive issue in organizations. Will it be avoided, scorned, tolerated, or embraced? If it is avoided, scorned, or merely tolerated, then the underlying message is that our organization prefers to remain within its comfort zone, and we're not willing to accept the challenge of finding new solutions. This path, of course, contains the seeds of self-destruction because externally-driven change may then overwhelm it. Hence, innovation champions embody the enthusiasm for failure, intelligent failure, that is, because failure is an extraordinary learning opportunity.

Similarly, innovation champions are always ready to learn about surprises, since surprises may be early indications of market change and innovation opportunity.

Further, innovation champions carry an enthusiasm for new data, and particularly data that contradict what we used to know, as these data may also be harbingers of change.

By exemplifying these attitudes in their interactions with a wide variety of people, Innovation Champions carry both a powerful message and they exemplify an important practical set of attitudes: innovation is important in this company, they proclaim, and all the factors that support innovation are aligned to enable the creative geniuses described above to achieve their maximum potential as innovative contributors to the evolution of our company.

management tools, and social networking tools.

In Don Tapscott's latest book, *Wikinomics*, he makes a persuasive argument that the emerging global economic model is shifting away from what we might call "traditional" business models, and towards new approaches that take advantage of the internet's emerging tools for knowledge aggregation and social networking, as exemplified by sites like Google, YouTube, FaceBook, and Wikipedia.

Tapscott identifies four core principles common to these examples of the new model, which are that it's a global phenomenon that is not limited by national boundaries, that it is based non the sharing of information, that it grows through peer relationships, and that it is fostered through openness of processes, content, and style.

The innovation infrastructure should build on these same principles to foster effective collaboration that connects insiders and outsiders. This needs to happen not only in the virtual world, but also in the real one. Hence, another useful tool for the innovation infrastructure is the face to face collaboration environment.

Unfortunately, the architecture profession, abetted by the office furniture industry, has standardized on a drab concept of the conference room and you've probably spent countless hours sitting around a conference table in many different versions of the same tired design. The style is derived from the corporate board room, and with a single chair for the boss at the head of the table, its primary social purpose is certainly to reinforce hierarchical authority. This is not a particularly good environment for innovation or creativity, and it can be absolutely deadly.

As an alternative, many companies have found that facilities specifically designed for collaboration can be a very beneficial enhancement to their innovation infrastructure, especially when used for high-performance collaborative workshops such as InnovationLabs. [For more information on this please see my white paper "High Performance Organizations in a Wicked Problem World;" [http://www.innovationlabs.com/high\\_performance.html](http://www.innovationlabs.com/high_performance.html).] Innovation Champions are often the ones who shepherd these environments into reality to enhance their organization's attainment of high performance.

In summary, if we were to choose a single word to describe what Innovation Champions do, that word would be "practice." Innovation Champions implement the practical tools to foster innovation through effective interaction, helpful attitudes, and practical means.

## Innovation Leaders

An Innovation Leader is someone who influences the core structures and the basic operations of an organization, all with a clear focus on supporting innovation.

Core structures include the design of the organization itself, as well as its policies and their underlying principles. Metrics and rewards can also be core structures. None of these factors are absolute givens, and all of them can be changed, and that's the point: they are all subject to design, to thoughtful choice about what is best. It's generally within the power of senior managers to change them, and when they impede innovation they should be changed to favor it.

Basic operations include budgets and work processes, and they also can be supportive of innovation, or obstacles to it.

All these elements together broadly constitute the internally-defined rules of the game, and leaders are the people who define a lot of them, either by explicit statement of policy, or by the tacit expression of their own behaviors. Other rules are defined by the market, and still others are made by the government. But a lot of the rules are made by managers, and they have considerable choice about it.

Do you think, for example, that the rules at Toyota are different than the rules at GM or Ford? You bet they are. Toyota's rules have favored innovation for a long time; GM's rules have definitely hindered it.

The actions and attitudes of senior managers are based, ultimately, on their philosophies about management, which is also referred to sometimes as their "theory of business." Do leaders believe in a win-win model, or win-lose? Win-lose organizations usually are not trusting environments, and because trust is so important to innovation, when it's missing then innovation suffers.

Similarly, what do the leaders see in the outside world? Do they recognize the immanence of accelerating change? If not, then they may not understand the critical role that innovation can play in their own firm's survival.

Because of all of these factors, leadership engagement is essential to innovation. Conversely, without leadership's direct participation, encouragement, and indeed expectation, innovation cannot and does not happen. Building on this idea, my recent book *Permanent Innovation* defined ten principles of innovation, and the 10<sup>th</sup> states simply that there is no innovation without leadership. It goes on to explain the reason why:

Companies are amazing expressions of human society. The fact of organizing thousands of people to create and deliver products and services around the world to thousands or millions of customers is a

remarkable thing. But the ability to do this brings unique challenges. In particular, the impact of organizational hierarchy has tremendous influence on the culture of every company, on its ways of working, and the results it achieves. Thus, top managers can be powerful champions of innovation, or dark clouds of suppression. It's up to leaders to ensure that their words and their actions support and enhance innovation efforts and methods, and that at the same time they work diligently to eliminate the many obstacles that otherwise impede or even crush both creativity and innovation.

Let's take a few specific examples. How about budgets? Do your budgets include a line item like "investment in innovation"? If not, are you sure that innovation is getting any investment at all? If there's no budget for innovation, then the likelihood that it will happen declines significantly.

Or is there a seed fund to invest in promising new ideas, or a team of people to manage ideas that do not fit inside of the existing business units? Then how will such ideas find support?

Without these tools in place, when innovation does happen it's almost certain to be exclusively incremental, executed in the regular course of product and service management. What will not happen is anything remotely related to a breakthrough innovation, or the development of a new business model or a new venture.

According to a recent survey by McKinsey ["How Companies Approach Innovation," October 2007], top managers believe that breakthroughs will deliver the greatest performance improvements, but without specific budgetary focus they're never going to get there.

The same McKinsey survey exposes a huge disconnect, as only 24% of the responding executives are actually involved in setting innovation budgets. And the same study found that only 22% of executives say that planning for innovation is part of their annual planning cycle. If it's neither budgeted nor planned for, then is it going to happen? Probably not.

Or consider this scenario: Do you assess and reward P&L managers on the profitability of their operations? Certainly. And do you also expect them to lead innovation? Probably.

But if you're doing both, then you're probably giving them a mixed message, because innovation is not only a short term expense that reduces current profits, but it also carries the risk that there won't any medium or long term benefit at all. Any investment in innovation therefore reduces the P&L manager's apparent performance, and hence the rewards.

Have you seen companies fail because of lack of innovation? This P&L dynamic is often a key factor, because when a P&L manager also has

responsibility for innovation, the decision to innovate must come from a moral, philosophical, or visionary commitment to doing so. The more short-term the incentive structure, the greater the threat to innovation. In most companies, the game is generally rigged against innovation-promoting behavior by the short-term structure of rewards.

Let's look at other issue. Are business units measured on their innovation performance? Are goals established for the contribution to value growth achieved through innovation? Or do you measure the "contribution to innovation" made by individuals, teams, or departments?

This reminds us of the truism that people do what they're measured on and rewarded for, and if they're not measured for their contribution to innovation then their contribution will probably be less than it could be.

Not that it's easy to measure, though. Innovation almost always involves the efforts of many people, so setting up an innovation reward structure that recognizes the team element may be preferable to a process that only acknowledges individuals. (But this remains a controversial topic, as some people believe that the only suitable reward system is one that rewards everyone in the firm. Reward for individuals can be seen as divisive.)

Innovation leaders also set expectations, define priorities, celebrate and reward successes, and deal with failures, and all of these factors can be done in a way that makes innovation easier or more difficult, because each can be arranged to favor the status quo or to favor useful and effective change.

The goals don't need to be modest, and in fact they can be outright aggressive. By setting them high, managers emphasize the linkage between an organization's strategy and its pursuit of innovation, perhaps elevating innovation to a strategic concern, which is where it properly belongs. Conversely, if innovation is not articulated as a goal of top management, then it probably won't be a goal of anyone else, either. Similarly, if policies are so restrictive that they make it impossible to test new ideas, then there won't be many new ideas.

Hence, innovation leaders are typically, although not exclusively, senior managers who feel a compelling need to bring innovation to their organizations, and who have the authority to make key decisions about both an organization's strategy and its operations. This puts them in a position to reduce or even eliminate obstacles that inhibit innovation performance. It's the overlap between commitment and authority that makes the innovation leader's role unique as well as indispensable.

By their very nature organizations tend to reinforce the status quo. This, as I noted, is not because of any shortcoming on the part of the people working in the organization, but simply because success in the short term is usually enhanced by factors like stability, predictability, and repetition. These are characteristics that managers are trained to manage toward; in the title of his



recent book, Larry Bossidy, CEO of Honeywell, characterized this as “execution,” perfecting the art of getting the job done well.

The problem, of course, is that getting the job done well often locks innovation out, and executing on the plan can also invoke another meaning of executing on innovation, which is killing it. Hence, the definition of execution has to include the application of principles and policies that enhance innovation efforts.

In summary, the critical function of innovation leadership can be expressed in a single word, which is Policy. Innovation leaders determine organizational policy to favor innovation. It sounds simple enough, but of course it’s not so easy.

## Conclusion: The Innovation Culture

We all know that innovation is difficult for organizations to accomplish, especially on a consistent basis. There are many common reasons for this, and we’ve explored a lot of them.

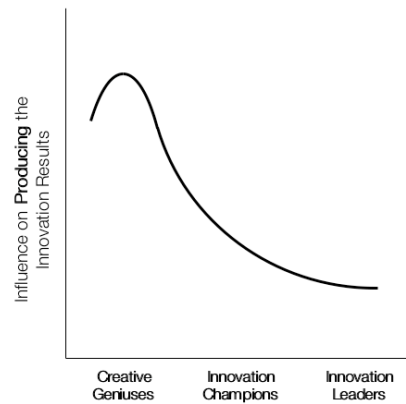
Structures, processes, and attitudes all can favor innovation or inhibit it. Other inhibitors can include lack of attention from top management, lack of a precise innovation methodology, and lack of time to pursue new ideas.

If you’re among the many managers who have identified the innovation culture as a target for your organization to achieve, then getting rid of the obstacles by understanding and applying the three roles defined here should yield a significant improvement in your firm’s innovation performance. The latent innovation geniuses, champions, and leaders probably already exist in your organization, and as you bring specific focus to defining and supporting them in these roles, their work will be validated and their efforts are likely to become much more effective.

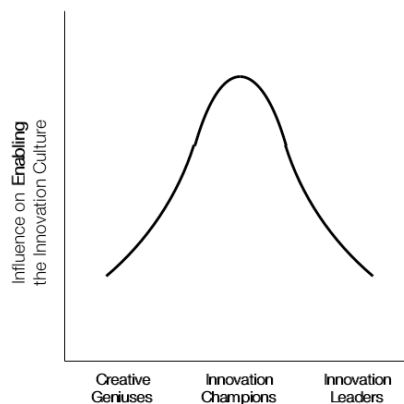
In summary, then:



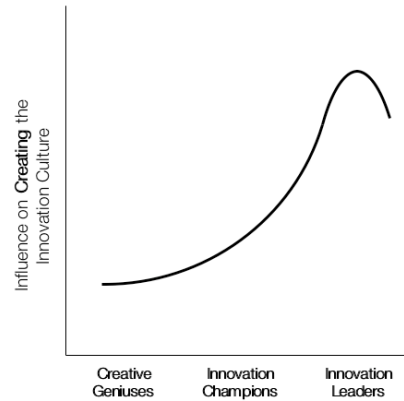
**Creative geniuses** apply the know-how that results in insights, ideas, and ultimately in innovation. Creative geniuses produce innovation results.



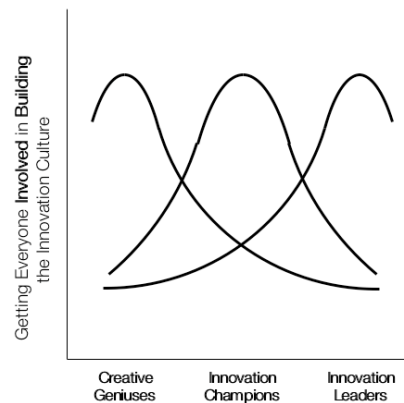
**Innovation Champions** define the practices that enable innovation, eliminate those that impede it, and in so doing enable the innovation culture.



**Innovation Leaders** define the policies that enable innovation, and eliminate those that impede it, thereby taking a lead role in creating the innovation culture.



Without know-how, without effective practice, or without policy, innovation will be inhibited or stifled outright. Hence, each of these three makes an important contribution to the development of the innovation culture, and all three roles are essential to success. It doesn't matter so much which functions originate with which individuals, but it matters a lot that everyone is involved, and that they have a clear understanding of their roles and how they can contribute to the bigger picture of the emerging innovation culture.



That nature of the shifts that are required is illustrated by the Innovation Culture Table, which is shown again here so you can reexamine the various paired concepts now that you've explored the rationale for the comparisons it proposes.

### The Innovation Culture Table

	Status Quo Culture	Innovation Culture
1.	Predictability	Un-predictability
2.	Seek stability	Seek novelty
3.	Focus on core competence	Focus on edge competence
4.	High success rate	High failure rate
5.	Reinforce the organizational hierarchy	Reinforce organizational networks
6.	Fear the hierarchy	Focus on creative tension
7.	Avoid surprises	Embrace surprises
8.	Focus on inside knowledge	Combine inside and outside knowledge
9.	Easy to live with	Hard to live with
10.	Corporate politics	Moving the cheese
11.	Efficiency through standardization	Efficiency through innovation
12.	Extend the status quo	Abandon the status quo
13.	Avoid change	Embrace change
14.	Measure stability	Measure innovation
15.	Look for data to confirm existing management models	Look for data to contradict existing management models
16.	Look for certainty	Embrace ambiguity

Wherever the Status Quo Culture is strong, making the transition to the Innovation Culture is not going to be easy, but it each line item offers opportunities to think and work differently, and each shift will help to bring the new culture into being.

Simply bringing these concepts into the awareness of the organization is itself a powerful step forward, as it begins to foster an organizational climate of openness and exploration, which will in turn support the emergence of the innovation culture.

...

### The Organizational Paradox

As you've been reading you may have noticed that there's a bit of paradox to this model, which is that on the one hand I've been insistent that the hierarchy is largely inimical to innovation, while on the other hand the idea of leaders as senior managers, champions as middle managers, and geniuses as everyone fits pretty well into the hierarchical boxes we're so familiar with.

The reality of today's companies, particularly the larger ones, is that the hierarchy is seen as necessary to how they function, and to the legal obligations that they must fulfill. It's true that there are some remarkable non-hierarchical companies, such W.L Gore and Brazil's Semco. But they are the exception.

But even among the overtly hierarchical companies, the tone of organization can reflect stifling obedience to the hierarchy or it can have a much different feeling of openness, trust, and learning.

For example, a senior manager at Toyota recently spoke about a project team he was heading up, and he mentioned how he went about choosing the people to be on the team. The primary selection criterion, beyond talent, of course, was that everyone on the team had to be willing to speak up and say if they thought he was wrong. He refused, in other words, to have anyone on the team who just went along with whatever he, as boss, believed. The team, needless to say, was tremendously successful.

That same team, it turns out, embodied just about every item listed in The Innovation Table under the category of “Innovation Culture.”

## Notes

The concepts presented in this white paper complement and extend the frameworks and principles described in my book *Permanent Innovation*, published in August 2006.

InnovationLabs has developed a series of Innovation Culture Seminars to help organizations understand and apply the concepts and distinctions presented in this white paper and in *Permanent Innovation*. Please visit [www.innovationlabs.com](http://www.innovationlabs.com) for more information.

Your feedback on this white paper is welcome. Please contact Langdon Morris with your comments: [lmorris@innovationlabs.com](mailto:lmorris@innovationlabs.com)