

# Semaphore Think Tank Paper 3

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## A Culture of Innovation – Leaders Igniting Change



As a niche consulting firm for Leadership Development and Change Management we love innovation! It's the key driver for constant change, which should be explicit or embedded in the business case of each leader and manager. While Change Management is seen as an extra effort in special situations of an organization, innovation is a constant challenge to adapt and develop the organization. It is not only about creating surprising or even superior products and services which customers appreciate but also about internal processes which are drastically shortened but also unusual alliances and the effective use of collective intelligence.

Dräger, Bahlsen, Mercedes-Benz, Deutsche Post and many other clients used our personal expertise and unusual methodologies to sustain or refresh their ability to innovate.

Roland Gieske

## What is innovation?

The concept of innovation is generally understood to mean the introduction of something new and different, particularly something radically different. In the corporate environment, innovation has many dimensions. In addition to improve products and services or to develop new ones, research shows that significant value is also derived from innovation in business processes, product/service delivery, new business models, or new ways of managing.

The focus often varies in market segments that a company targets. Some companies in the automotive and aerospace sectors, for example, tend to see innovation largely in terms of technical R&D, often encompassing supply chain partners. Companies in consumer goods segments, by contrast, can be more likely to see applications for innovation across the value chain, and strive for an integrated end-to-end innovation process. They are also heavily focused on improving the customer experience.

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The most sophisticated companies distinguish between different types of innovation. One financial services company defines innovation as “a viable new business concept” and differentiates between “incremental” improvements to existing business lines, which can be implemented with limited risk, and “transformative” innovation, which results in path-breaking products or services. The higher risks of the latter type can be managed through pilot market studies. Other companies specifically focus their innovation efforts on business processes to cut costs or deliver a superior customer experience. Most companies agree that, ultimately, innovation must touch every corner of their organization, so that every employee is expected to seek new and better ways of doing things within his or her sphere of influence. Very few companies claim to have achieved that ideal state.

## Best practices to innovation – forget it!

### There are multifaceted approaches

Innovation has to permeate the entire organization. And there are appropriate roles to be played by the senior human resource leaders, the technology leaders, and the strategy lead-ers. There are contributions to be made from various functions across the organization” As important as a strategy or model is, the executives stressed in our discussions that the real challenges lie in filtering ideas, developing the best ones into economic models, and then executing them.

### Who owns innovation

Managers like to say that innovation should be everyone’s responsibility. But they are usually quick to add that employ-ees can’t innovate unless leaders empow-er them to do so in an environment that values and rewards their contributions. Developing leaders who can create that kind of climate is seen as a key challenge, but there are many different ways of allo-cating accountability. Whether a company creates a center of innovation expertise in corporate headquarters or diversifies ownership of innovation across business units depends both on the company’s market focus and on its organizational structure. An executive of a major phar-maceutical corporation says: “We are a product-based company, and we must innovate to survive. Innovation is in the fabric, it’s in our core competitive ad-vantage. We don’t have an innovation office or a new product development group or ‘voice of the customer’ structures that you might see in consumer products. It really is a core strategic element of who we are. We call it

**Employees can't innovate unless leaders Empower them to do so in an environment that values and rewards their contributions with money or visibility**

out in our core values and in leadership behavior, and that’s re-ally where it begins.”

Diversified organizations with a broad spectrum of products and services tend to assign responsibility for innovation to business unit managers because that’s where new ideas are closest to the cus-tomer.

Centralizing talent development, however, allows them to communicate a consistent message across the company on how innovation should be driven and sustained while giving people across business units an opportunity to share best practices and collaborate. Companies that rely on strong R&D and engineering to support complex technical products tend to take a more centralized approach. When the top management of EADS decided to increase the company’s emphasis on innovation, it hired a chief technical officer, for the first time assigning clear ownership of innova-tion within the top management structure.

## Fostering an innovation culture

There is no blueprint for successful innovation, but successful innovators like IBM, EADS or Johnson Controls share a number of common traits in three critical areas:

### 1. Leadership

Successful innovators are more likely to have leaders who establish a climate for innovation – a key part of an organization's values. They create a compelling vision for their people, become champions for innovation, challenge the status quo, and explore unconventional ways of solving big problems.

### 2. Values and culture

Successful innovators are more likely to say that they have a shared belief that innovation is a business priority, that employees are expected to develop new ideas or create new ways of doing things, that they recognize and reward employees for

innovation, and that they are open to ideas from external sources, especially customers.

### 3. Organizational structures and processes

Successful innovators more frequently report that their organizational structures facilitate cross-functional or cross-business collaboration, that they include diverse networks of external organizations that share ideas, and that they are skilled in collaborating and managing external partnerships. Senior executives of companies with strong reputations for innovation say that all of these qualities are recognized and aggressively promoted.

## Using leadership development as a culture-building tool

Senior executives of innovative companies say that building capacity for innovation involves re-focusing existing leadership competencies towards innovation rather than developing new ones. This process, they say, puts more emphasis on values than on skills. Nonetheless, they see their existing leadership development systems as ideal tools for instilling cultural values while simultaneously building related competencies. Participation of the CEO or other senior executives in leadership development events is the most effective vehicle for instilling cultural values, according to several of those interviewed. This is especially important when leaders are expected to make fundamental changes in

their thinking, particularly when it comes to risk taking.

### Linking values to behaviors

Many innovating companies share common views about the essential elements of a corporate innovation model. They include a set of corporate values linked to a hierarchy of expected behaviors and performance indicators, which in turn provide assessment criteria for performance management and incentive systems. Values and behaviors that underlie innovation are tightly linked. An executive of a highly innovative biotechnology company explains how her company leverages this connection: "There are two levels – core values and leader behaviors. The way I sometimes describe it

is values are who we are, and the behaviors are how we act. The values highlight a science-based, data-driven culture that really is in our DNA. For the leaders, we talk about risk taking and more specific

behaviors that managers can demonstrate to encourage innovation. In large part, these point to the necessary balance between trust and risk in individual relationships.”

## Values and culture: instilling the right principles

Changes to the corporate culture may be necessary in order to improve a company’s innovation capacity. There is consensus among senior executives and innovation experts alike that a culture that encourages innovation includes values of risk taking, challenging the status quo, and freedom of expression. In an ideal environment, people create new value through innovation. This is more likely to happen when every employee is expected to generate ideas for improving all aspects of the business – and where employees believe that their ideas are both welcome and valued. When companies achieve this state, they can establish the critical mass necessary to sustain a process of continuous innovation. Respondents to a

Leadership Survey led by Oliver Wyman in 2009 give their companies mixed reviews on their ability to instill these values in the corporate culture. A small majority of respondents believed strongly or moderately that employees think innovation is a business priority and that they are expected and encouraged to innovate. Fewer than half say that employees are recognized for innovating, and that employees believe their ideas will be supported. Executives who say that their companies have a well-established innovation strategy report better outcomes, with a majority agreeing strongly or moderately that each of these elements has been instilled as part of the corporate culture.

## Communicating the innovation process

There is strong agreement that communication of a company’s innovation process is critical to instilling corporate values. Companies with a strong innovation culture have leaders who create a climate that is open to ideas and change, and who create a compelling vision for their people, than those who do not see communications as a challenge. The need for communications is also rated particularly strong by respondents from companies that are in the process of developing an innovation strategy. In interviews, senior executives pointed to three key communication needs:

1. First, instilling corporate values that encourage innovation across the organization.
2. Second, focusing idea generation in the areas where the company is most likely to act, partly by promulgating evaluation criteria.
3. Third, maintaining the transparency of the idea pipeline and providing systematic feedback so that the originators of ideas that are not acted on don’t disengage from the creative process.

## Organizational structures and processes

Continuous innovation requires a corporate culture that demands innovation, strong leadership from the top, linkage of values to behaviors, and a solid communication strategy. But this isn't enough. A bountiful flow of creative ideas is worthless without business processes to assess them, put them into action, and motivate risk taking and other behaviors that drive execution. Corporate systems and processes that facilitate cross-functional or cross-business collaboration as well as partnerships with external organizations also play an

important role. As with other aspects of innovation, companies with well-established strategies report substantially more success in implementing these types of corporate systems. Moreover, respondents from the above mentioned report say that companies are much less likely to state that their bureaucracy slows down decision making and hinders innovation. About 14% of all respondents agreed strongly with that sentiment compared with only 1% of those with well-established innovation strategies.

## What are the answers in your organization?

- Our bureaucracy slows down decision making and hinders innovation
- We are skilled in collaborating and managing external partnerships
- We are structured in a way that facilitates cross-functional collaboration
- We have a diverse network of external organizations to share information

## Feeding the Pipeline

Most of our clients as well as senior executives interviewed by Oliver Wyman agreed that idea generation is no longer a significant bottleneck in their innovation processes. But that doesn't mean they take idea generation for granted. On the contrary, many large companies are using innovative techniques such as Web portals, competitions, and other vehicles for encouraging brainstorming and collaboration across a broad range of employees, as well as external partners. Because of its large scale, IBM's **Innovation Jam** is one of the best-known of these initiatives. The company has been using online brain-

storming for several years. During two 72-hour sessions, participants explored every conceivable angle of a wide range of ideas, with each session initially seeded by IBM employees, but soon taking on a life of its own. Marin Fleming, IBM's vice president of corporate strategy, says the Jam was highly successful, as is the company's workplace innovation portal. "A very large number of IBMers participated, and a large number of fruitful ideas emerged", he says. "And out of that process there are now 10 initiatives that are under way to bring new solutions to the market."

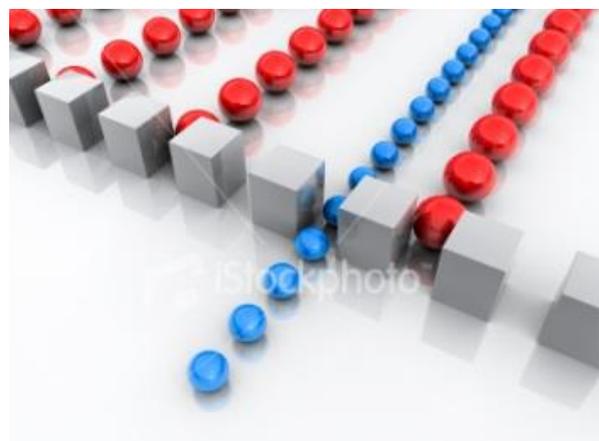
Infosys uses face-to-face structured brainstorming to promote technological innovation. Evalueserve created an initiative called Knowledge Olympics. Teams of four or five people compete to come up with new ideas or research, and each team prepares a detailed presentation for evaluation by company executives. The company credits this initiative with a number of successful innovations, including a new model for valuing intellectual property.

Infosys takes also a structured approach to managing its idea pipeline. Sanjay Purohit describes its four categories:

1. “There is one category where we believe it is important to invest and learn more, and we call that ‘explore’ ideas. It may be a bright spark, but we’re not too clear on how to operationalize it.

Cisco has also successfully used internal competition. The company periodically brings together 40 or 50 people from across the business for an executive development initiative. They break into teams and develop proposals to submit to a funding governance committee. If their projects get accepted, some are asked to be leaders of the project, and they take them forward. “So we’ve got that both in the organization as how we operate and how we leverage it and teach it through our leadership development initiatives,” says Annmarie Neal, vice president of talent management and development. “This approach has the benefit that it simultaneously generates new business concepts and provides leadership development opportunities.”

2. “The second category is where the idea is very clear but we do not have the necessary competency set to make it into a market reality. So that is about investing in market development. This is an ‘engage’ idea.
3. “The third area is where we have the competency sets required to realize the idea but they’re not large enough or not scalable enough to create sizable impact. So that’s about enabling the company. This is an ‘enable’ idea.
4. “And the fourth is where the idea is very clear, we have put everything together, but it’s a question of realizing the commercial value of the idea. We call that the ‘earn’ idea.”



*Only some make it to become a business case.*

## Managing the idea pipeline

Many executives agree that the biggest challenge in improving corporate systems is developing a “pipeline” of ideas that can be systematically evaluated and filtered for execution priority. Companies that have established innovation as part of their daily business activities describe the components of a fully developed idea pipeline as follows:

- An innovation portal on the corporate intranet or some other forum for sharing, testing, and developing new ideas, with participation from external partners
- Cross-functional focus groups or product groups to assess new ideas according to established criteria, classify them, and build prospective economic Models
- Links between product/service development and marketing/sales teams to expose new proposals to market realities
- A senior-level board to systematically allocate investment among the best ideas

## Motivation through visibility

Recognition other than compensation can also be important. Bayer Material Science recognizes technical innovators within the company’s broader approach. Ian Paterson, board member responsible for marketing and innovation, says, “We are innovative in all that we do – production, marketing administration, and so on. But if we use the word innovation in terms of research and technical development specifically, what we try to do is recognize those people within our organization who are key innovators. And we do that with a fellowship program, whereby people can become a fellow within our organization’s scientific community. This gives them the acknowledgment they deserve.”

## Finally: implications for business leaders

A failure to innovate can put global organizations at risk and diminish their ability to sustain or gain a competitive advantage. Fortunately, this challenge can be met if companies realize their ability to innovate is inextricably linked to their leaders, culture, and organizational design. Some challenges can be managed largely by building leadership bench strength, but sustained innovation depends on developing whole leaders who can create the right climate. Inculcating certain values – such as risk taking, challenging the status quo, and freedom of expression – into the corporate culture is also key. And, finally, leaders must take responsibility for architecting the right organization structure and processes to support the development and

implementation of ideas that create value – the essence of effective innovation. While the conditions that promote innovation must be supported by leaders across the company, the innovation process must start

### Changes which are needed to become more innovative

Changed mind-set of people/leaders	33%
Organization design and formal structures	21%
Organization culture	20%
Work processes	18%
Innovation strategy	8%
Other	1%

Oliver Wyman Survey on Innovation, 22 CEO's interviewed

at the highest levels. In order to successfully lead and manage this process, enterprise leaders must

think about the three key drivers – leadership, culture, and organizational structure and processes – in an integrated and mutual reinforcing way. Only then can senior leadership build an adaptive and sustainable organization where innovation is inherent part and natural part of the corporate culture.

The goal of leaders must be to create an environment and culture which fosters innovation. Managers should implement a customized, end-to-end approach to generate, convert and diffuse ideas. Copying innovation best practices is a mistake, continuous innovation as part of the culture is a success.

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# Impressum

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