Is Your Culture Innovation Ready? Part I

by Gerry Schmidt Ph.D. and Lisa Jackson

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:

1. What is the context that is driving greater innovation in today's workplaces?
2. Is innovation linked to your strategy, and what are you innovating for?
3. 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:

Business Model of Today	Business Model of Tomorrow
Fill the product pipeline	Products to market faster
Customer service	Customer partnerships
Strategy is the rulebook	Strategy is a guideline
Competitive advantage achieved through quality, price, service	Competitive advantage achieved through reputation, social responsibility, relationships
Execution through coordination, procedure, and off-shoring	Business Model of Tomorrow: Execution through collaboration - breaking down traditional boundaries of customer, competitor, vendor, supplier
Global economy: Driven by efficiency and cost; focus on bottom line	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.

October's issue of Link and Learn will feature Part II of "Is Your Culture Ready for Innovation", outlining nine building blocks a cultural foundation of innovation.

About the Authors:

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