

## **Building an Innovative Culture** **November 14, 2007**

### **Introduction**

This paper explores the nature of innovative cultures and the steps leaders can take to build cultures which nurture innovation.

Culture might best be defined as what people in the organization do when no one is looking. It can be observed by watching the behaviors of the people in the organization, from the CEO to the newest, most junior employee.

These behaviors are influenced by values, both of the operational variety (“Speed to market is more important to us than building the best widget”) and the personal variety (“It is morally wrong to discriminate against a certain group of employees”).

In the simplest terms, innovation is the successful commercial application of new ideas. These ideas can be utterly new to the market or just new to a particular company. They can involve new services, new ways to position existing services, whole new businesses, and new ways of getting the work done.

A culture supportive of innovation is one of several variables which are positively correlated with exceptionally innovative organizations. The others include:

- A balanced growth strategy, based on organic growth and targeted acquisitions to enter new markets or acquire critical expertise
- Above average investment in market led research and development
- Capacity to absorb and exploit new knowledge
- A focus on what really matters to the customer

### **Checklist for an Exceptionally Innovative Culture**

There are 12 factors which are highly correlated with the cultures of successful innovative companies.

The list is numbered for ease of reference only. No one factor is known to have a larger impact than the others. It’s the interplay of the values, leadership behaviors and processes listed here that creates a culture which has the right mix of creativity, selectivity, and excellence in execution to bring good ideas from the whiteboard to the market.

1. Support and encouragement of taking risk rather than maintaining the status quo. In the words of Guy Kawasaki, “Don’t worry, be crappy.”

2. A corporate leadership team that plans for most of the company's growth through the development of *new* products and services, and is diligent in ensuring that the best ideas are exploited and less promising ideas killed early on.
3. Inspirational leadership with an inspirational vision.
4. High trust relationships, relatively free of interpersonal conflict.
5. Investment in and encouragement of skill development at all levels.
6. Substantial, sustained information sharing, which creates well informed employees. These employees can apply their extensive knowledge of customer desires, the company's goals and strategies, and competitive threats to improve their own work, as well as offer innovative solutions beyond their own immediate area of responsibility.
7. Family friendly or "life friendly" work practices. Some examples are flexible office hours, child care, part-time arrangements, or telecommuting.
8. Demonstrable valuing of differences. This includes the traditional dimensions such as gender, race, physical disability, etc. as well as the less visible dimensions, such as different ways of thinking or approaching the work to be done, different personal values, religious or spiritual beliefs, different lifestyles, etc.
9. Semi- or fully autonomous teams, who are free to solve most problems and make decisions on their own or by working directly with other teams -- without escalating to management for approval. This can and should include decisions about which of their creative ideas to further explore and which to kill off.
10. Direct employee involvement in innovation via routine team briefings with feedback, and involvement in the decisions on how work is organized and outcomes improved.
11. Goals relevant to innovation such as increase in number of new services launched, success rate of innovative products and services, decrease in non-value-added work due to process innovation, better speed to market, etc., and a means of measuring progress toward them.
12. Adequate resources to exploit ideas. Some examples include hiring temporary staff to cover some routine day-to-day functions while key team members dedicate themselves to bringing up a new business, funding market research for new ideas, and hiring process engineers to teach employees how to map and improve their work processes so they can free up more time to pursue new ideas.

Few organizations are currently strong on all twelve fronts. A rigorous assessment and focus on improving key areas can help. Assessment should begin with a survey of

employees, who are often well qualified to assess the real level of innovation nurtured by the current corporate culture. A sample survey is included in Appendix A.

## **Acquisitions**

An acquisition poses a particular challenge. The most innovative companies are, for the most part, small. They are upstarts, not established behemoths. Yet acquisitions are essential to building a more innovative organization, so it is inevitable that small companies with highly innovative cultures will be acquired by larger companies with less innovative cultures.

There is a habit among acquiring companies of constantly implying that “our way is the better way -- just look at how much bigger we are.” It takes tremendous commitment to avoid this trap.

If anything, the smaller acquired company likely has something to teach the acquiring company about innovation. Leaders in the larger acquiring company typically focus only what the acquired company can do to fit in and contribute to the established business. This is only half of the conversation that should happen. Of equal or greater importance is what the larger acquiring company can do to be more like the smaller acquired company.

The desire to dominate is often strong in aggressive companies, yet it is this very desire that must be redirected to the marketplace and away from the acquired company. You can't build a winning collaborative team with an “us vs. them” mentality nor with a “we acquired you, so we win” state of mind. It seems self-evident, but take a glance around your company and see if this is the approach consistently taken. You might find a few, or a lot of, exceptions.

## **Ecosystems**

In the 21<sup>st</sup> century, no discussion of innovation would be complete without an acknowledgment of the essential role ecosystems play in fostering innovation.

It is no longer good enough to have the dozen key factors inside your company. Leaders must diligently work to ensure that they have a similar approach to working with business partners, key suppliers, outside inventors, and consulting firms.

There's even a reasonable argument for utilizing most of these factors with competitors where new partnerships may spring from the approach. Yes, do proceed with caution, but at least consider it.

One aspect of the ecosystem which is of little or no importance is government funding and involvement. If anything, too much government seems to muck up the process. There has been -- for many years -- a direct correlation between the difficulty of starting a business in any given country and that country's level of commercial innovation.

When the stakes in starting a company are excessively high simply to jump through regulatory hoops and avoid career-ending bankruptcies, only a proven idea will be pursued as a business.

In my own work, I can recall no particularly innovative client based in a country which is a regulatory quagmire, such as Japan or Germany. Although Japanese exporters are seen as innovative by many, and certainly run their businesses with some of the above cultural factors, upon closer examination, I generally observe not an environment of bold innovation, but one of occasional innovations and lots of continuous improvement.

Likewise, most great commercial innovation does not happen in government funded skunk works. This is not to diminish the significant discoveries made by government researchers, but innovation is not simply discovery, it's converting the discovery into something which adds value in a market.

### **Getting Started**

Start your journey by exploring these questions as a leadership team:

1. How well do we stack up on each of these 12 factors?
2. How important is innovation to driving growth, revenue, market share, and customer satisfaction?
3. What's the worst that would happen if we did nothing to create and sustain a more innovative culture?
4. How realistic is it for us to develop each of the 12 factors?
5. How much autonomy do we have in developing the culture?
6. What metrics would we use to measure progress?
7. Can we support an innovative subculture in one division, even if the rest of the company isn't ready?
8. Do we have the basic foundation to develop a more innovative company? Do we have the attitudes, experience, and skills? Do we have what it takes to get there?

## **Appendix A: Innovation Survey**

Each question represents a behavioral or cultural factor from the list above. All scaled items are comprised of a 1 – 10 scale. Each polarity is represented by a statement. In each question, the statement on the left represents no correlation to the factor and the item on the right represents 100% correlation with the factor.

The participant will choose a number on the continuum that represents how the company performs today, and a second number that represents how the company needs to perform in order to be more successful. Participants will see only the questions, not the success factor the question seeks to measure.

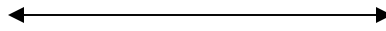
In addition to the scaled items, participants will have multiple opportunities to share their perspectives:

- A text box will be available after each item
- An open-ended question will be included at the end of the survey
- Some participants should also participate in a follow-up interview

The final page shows an example of how the results would appear for one item.

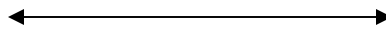
1. Support and encouragement of taking risk rather than maintaining the status quo.

*The focus here is on maintaining the “status quo.” Big changes, such as entering a new market, are often viewed as a disruption to the well-oiled machine.*



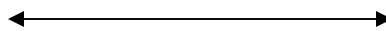
*Everyone in the company regularly discusses new business ideas and ways to grow the business. As a result, new opportunities are regularly explored and brought to the marketplace.*

*When an employee has an idea to improve or grow the business, the process to explore the idea’s feasibility is haphazard, political, or non-existent.*



*When an employee has an idea to improve or grow the business, there is a process in place to capture that idea and explore its feasibility.*

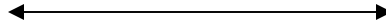
*People who take risks and fail are rewarded for taking a chance. It’s never a career-killer.*



*People who minimize risks, maintain tight controls, and rarely fail are rewarded handsomely and encouraged to keep up the good work.*

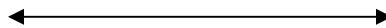
2. A corporate leadership team that plans for most of the company's growth through the development of new products and services.

*Corporate leadership is more invested in our current products and services than in possibilities for new products and services. This is what they talk about and it seems to be how they spend their time.*



*Corporate leadership is committed to developing new products and services and has made it clear that this is where our future lies.*

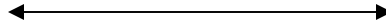
*This company has a flavor-of-the-month problem. Many new ideas are pursued at once without a rigorous selection process, wasting time and resources.*



*This company doesn't waste resources chasing after too many ideas at once. Only the best ideas are implemented. Just because an idea is new doesn't mean it will be implemented.*

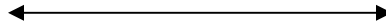
3. Inspirational leadership with an inspirational vision.

*The vision of our company is hard to distinguish from those of other companies. For the most part, it's generic.*



*Our company's vision inspires people.*

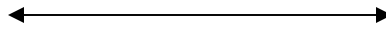
*The leaders here do not inspire me.*



*The leaders here inspire me.*

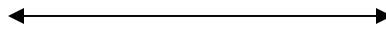
4. High trust relationships, relatively free of interpersonal conflict.

*It's a political minefield around here. People have to watch their backs.*



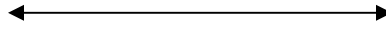
*People here can be trusted to support one another. There are no scapegoats when things go badly.*

*People here struggle to get along. People put up with each other, but don't really like or respect each other.*



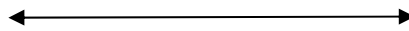
*People here get along well. We don't see eye-to-eye on every issue, but it's not personal. Everyone demonstrates respect and acceptance of each other.*

*People in leadership and management roles can't be trusted.*



*People in leadership and management roles are as trustworthy as anyone else.*

*We do not resolve conflicts well. Bad feelings simmer or a blow up occurs.*



*We are skilled in resolving conflicts in a respectful way.*

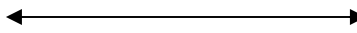
*Most of our conflict is interpersonal. It's based on people not getting along, not liking each other, or not trusting each other.*



*Most of our conflict consists of disagreements about the work itself, not about personalities.*

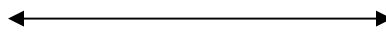
5. Investment in and encouragement of skill development at all levels.

*You really have to fight to get an opportunity to develop your skills here. Our skill development is not important to management.*



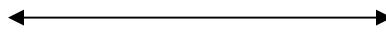
*Skill development is a top priority. Managers make sure that employees have every opportunity to grow.*

*The company does not make continuing training and education available.*



*The company provides and/or pays for continuing training and education.*

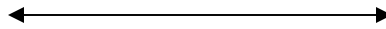
*Managers and executives stay in the same roles and do their jobs in the same way for years.*



*Managers and executives are great role models for growth themselves, always working on developing their skills, too.*

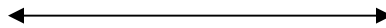
6. Substantial, sustained information sharing.

*There's not much communication about what's going on in different parts of the company or the market.*



*There is a great deal of communication about what's going on in the company and the market. There are opportunities to be involved in sharing what we do with other groups and to learn what they do, too.*

*We don't share with other groups what we do or learn from them what they do.*



*There are opportunities to be involved in sharing what we do with other groups and to learn what they do, too.*

*I can explain:*

- *My job responsibilities*
- *My team's accountabilities*
- *My team's goals for this year*

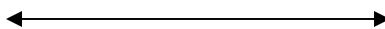


*I can also explain:*

- *How my role fits in to the bigger picture*
- *How my role adds value for the customer*
- *The competitive landscape*
- *Financial status of the company and of major product or service lines*
- *Needs of key customers*
- *Trends and changes in the market*

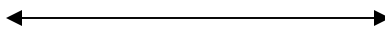
7. Family friendly or “life friendly” work practices.

*The work/life balance here is skewed in favor of the company.*



*The company strives to support a balance between work and other aspects of life. This is demonstrated by policies, procedures, and willingness to accommodate individual needs.*

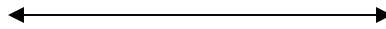
*Our company has no policies for flexibility and work/life balance, or we have them, but the people who use these policies are taken less seriously at work or ostracized.*



*Our company’s policies, procedures, and willingness to accommodate individual needs are real. Individuals who use these policies do not lose respect simply because of their flexible work arrangements.*

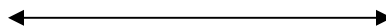
8. Demonstrable valuing of differences.

*There is a normal way to be at this company. People who are different have to pretend to be like everyone else.*



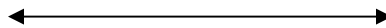
*What matters here are a person's skills and willingness to contribute to the company's success. People who are different from the majority are accepted just as much as those who are similar to most other people.*

*It's as if each department is its own company. Few employees routinely interact outside their own department or division.*



*We have strong working relationships across the organization, with a variety of groups.*

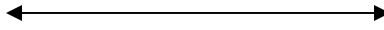
*It's rare to meet someone who has worked in several areas of the company.*



*The company ensures that people are exposed to diverse perspectives and experiences by encouraging us to move around into various functions, divisions, or teams.*

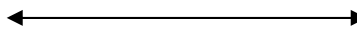
9. Semi- or fully autonomous teams, who are free to solve most problems and make decisions on their own or by working directly with other teams -- without escalating to management for approval.

*New products, services, and work processes take too long to implement here. My team does not have any say in what the changes will be or how to implement them better.*



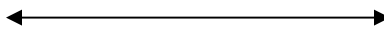
*My team is allowed a lot of flexibility in how we do our work, solve problems, and adapt to changes. We can very quickly take on new responsibilities, with minimal impact on our overall effectiveness.*

*My team is free to work directly with other teams to generate ideas and solutions to problems, and to pursue the most promising ones.*



*Everything goes through the chain of command.*

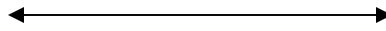
*Senior management is responsible for the success of the business. The rest of the company follows their directions.*



*While senior management may ultimately be held accountable, all of us believe we are mutually responsible for making the business a success.*

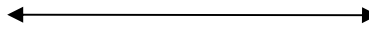
10. Direct employee involvement in innovation through routine team briefings with feedback, and involvement in the decisions on how work is organized and outcomes improved.

*I know who my customers are and how well my services or products are doing.*



*I do my part and am told very little about my customers and their reaction to my services or products.*

*I've met the customers who buy my company's products or services, and talked with them about their experience and level of satisfaction.*



*I've never been introduced to a customer.*

*My team is empowered to act on feedback.*



*My team is told what we're doing wrong, and prescribed a solution. We're not encouraged to work out a solution ourselves.*

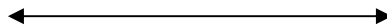
11. Goals relevant to innovation and a means of measuring progress toward them.

*This company has a vision, and we try to move in this general direction. Words like “more”, “better”, and “faster” are part of our language, but we do not have specific goals to measure our success.*



*This company has measurable goals. We know when we reach a goal because we achieve the targeted number.*

*People at the top say we need to be an innovative company, but nobody pays attention to that.*



*Most people I know here agree that if we are to stay successful, we have to be a company that constantly innovates.*

12. Adequate resources to exploit ideas.

*When employees come up with ideas to improve the business, they had better be willing to work a lot of overtime to see it through on their own.*



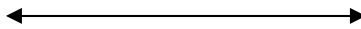
*If someone has a good idea that makes it through a due diligence process, they can count on this company to assign the resources needed to bring it to market.*

*My team has too much work to do every day. We don't have time to think about innovation.*



*Growing and improving the business are so much a part of everyone's job, it has become a normal part of the way each of us plans our time.*

*New ideas which involve multiple business functions are reviewed by senior management and either furthered or rejected.*



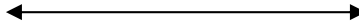
*Cross-functional teams are encouraged to explore and implement new business ideas which meet a clearly defined set of qualifying criteria. They are assigned the resources necessary to do this as a regular part of their work.*

Final question:

What should the company do differently to ensure that everyone can contribute their new ideas, and that the most promising ideas are implemented?

**Sample Results Page for an Item**

*New ideas which involve multiple business functions are reviewed by senior management and either furthered or rejected.*



*Cross-functional teams are encouraged to explore and implement new business ideas which meet a clearly defined set of qualifying criteria. They are assigned the resources necessary to do this as a regular part of their work.*

Average: How the Company currently performs

|   |   |   |   |            |   |   |   |   |    |
|---|---|---|---|------------|---|---|---|---|----|
| 1 | 2 | 3 | 4 | <b>5.7</b> | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|------------|---|---|---|---|----|

Distribution: How the Company currently performs

|   |   |   |   |   |   |   |   |   |    |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|   |   |   |   |   |   |   |   |   |    |

Average: How the Company needs to perform

|   |   |   |   |   |   |            |   |   |    |
|---|---|---|---|---|---|------------|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | <b>7.1</b> | 8 | 9 | 10 |
|---|---|---|---|---|---|------------|---|---|----|

Distribution: How the Company needs to perform

|   |   |   |   |   |   |   |   |   |    |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|   |   |   |   |   |   |   |   |   |    |

Results should be sorted to search for demographic trends such as:

- geography
- age
- gender and race/ethnicity
- functional area of responsibility
- tenure with the company
- hierarchy

The last sort is particularly important because even leaders who consider themselves to be well in touch with their organizations often answer questions differently from those lower in the hierarchy.

## Appendix B: Resources

Bain & Co., Management Tools and Trends, 2007. Available at <http://www.bain.com/bainweb/PDFs/cms/Public/Management%20Tools%202007%20B%20B.pdf>.

Department of Trade and Industry Report on Innovation, 2003. Available at <http://www.dti.gov.uk/files/file12093.pdf>.

The Economist, Special Report on Innovation, October 13, 2007. Excerpts available at [www.economist.com](http://www.economist.com).

Florida, Richard. The Rise of the Creative Class, 2002. Basic Books.

Kawasaki, Guy. Rules for Revolutionaries: The Capitalist Manifesto for Creating and Marketing New Products and Services, 1999. HarperCollins.

MacKenzie, Gordon. Orbiting the Giant Hairball: A Corporate Fool's Guide to Surviving with Grace, 1998. Viking Penguin.

Rayner, Steven. Recreating the Workplace, 1993. Oliver Wright Publications.