Creating a Culture of Innovation

Changing your culture to accept and embrace innovation

innovate on purpose

Jeffrey Phillips
VP Marketing

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Executive Summary

Firms of all sizes are actively seeking to become more innovative. In many firms, a product and services teams seek to generate more ideas and evaluate those ideas to create new products and services. While many firms have well-defined new product or service development processes, few firms have mastered the generation and management of ideas – the so-called "Front End" of innovation. One of the biggest challenges to becoming more innovative as a firm is changing the corporate culture to accept and embrace innovation. While many approaches recommend adapting corporate culture to the innovation focus, little information exists on the methods to change corporate culture to accept and embrace innovation.

Corporate culture is an unlikely barrier to innovation, but a powerful one. Years of cost-cutting and focus on process excellence have created in many firms a culture that is focused on operational excellence and risk avoidance. For innovation to succeed as a corporate objective, the culture must change to accommodate the risk and uncertainty that accompanies an innovation focus. Luckily, several important levers can help you change the culture, including the commitment of senior management, compensation, communication, training and metrics.

We'll examine each of these levers briefly to describe how to use them to open up your culture to more innovative thinking and actions.

Creating a culture of innovation in your firm

Innovation is becoming *the* corporate strategy. Over 65% of CEOs surveyed by the Boston Consulting Group list innovation as one of their top three priorities. With increasing global competition and shrinking product lifecycles, it's clear that true differentiation can come only through consistent innovation.

Several challenges stand in the way of becoming more innovative, including the need to meet financial expectations and continue or extend the life of existing products and services. Probably the biggest challenge many firms face is creating a culture that supports and embraces innovation. Corporate culture may not seem like a significant barrier, but survey after survey demonstrate that corporate culture is identified as the most difficult barrier for innovation. As an innovation consulting firm with experience in a number of organizations across a range of industries, we find corporate culture to be the most consistent hurdle for innovation success, over factors generally considered more important, such as a lack of ideas, a lack of an innovation process or the absence of an idea management software application.

Why is something like corporate culture, which seems so benign, so powerful when it comes to creating and sponsoring innovation? Simple. Corporate culture dictates how people expect to work, and what the "rules" are about how the firm is run. Wikipedia defines culture as the "attitudes, experiences, beliefs and values of an organization". When individuals join a firm, they usually adopt the culture of the firm as well, reinforcing the belief systems and encouraging others to adopt the culture as well. In some firms, the culture of the organization is so strong and so pervasive that the culture becomes the identity of the firm. For many years, Arthur Andersen employees were known as "Androids" due to their close adherence to corporate methodologies and a strong corporate culture. Generally speaking, a strong corporate culture can have a very positive influence on the firm, aligning the entire firm to a specific set of values or goals. However, a strong corporate culture can have a negative influence as well. Strong cultures often discourage change or new strategies when they are most needed, and resist new approaches or new methods. For example, consider the current shift underway in many organizations from process excellence to an emphasis on innovation.

Over the last two decades, the corporate cultures in many firms have emphasized a focus on cost cutting, outsourcing, quality and process excellence. This thinking pervades the perspective people have about their jobs, their compensation and their long term success. The consistent focus on process excellence, quality and quarterly achievement of market expectations from the management team, reinforced by Wall Street and compounded by the compensation schemes have created organizations that have a corporate culture dominated by incremental thinking and risk aversion. This corporate culture presents a significant hurdle for innovation.

It's not as though innovators and experts are unaware of the need to change or adapt corporate culture. Almost every presentation or methodology recommends changing the culture to become more accepting of innovation. Unfortunately few experts identify the steps to take to change corporate culture. When implementing a sweeping change like an innovation initiative, it is self-evident that the culture of the firm must adapt to embrace the new thinking, however many managers shy away from taking on an entrenched corporate culture. Obviously, changing a culture is not easy, especially when you are asking a culture to accept more failure and more risk. Cultural change requires leadership, consistent commitment, communication and time, as we'll see in our next segment.

Forces that can assist cultural change

Most cultures are fairly resilient and resist change. Even when the corporate outlook is dire, it can be difficult to change a corporate culture. Look no further than the Big Three automakers in the United States. All three are losing market share, and hover at a break-even operating margin, yet there's been little corporate culture change in these organizations. This has led to the appointment of non-automotive CEOs taking over the reins at Ford and Chrysler. Clearly a dramatic downturn in corporate fortunes won't guarantee a change in the culture, and neither will dramatic changes in competition or market conditions. Consider a corporate culture as a living entity, with selfish motivation and self-preservation in mind. There are only a few factors that can change a culture – and they must work collaboratively to succeed.

There are five significant factors you can influence to begin to change your corporate culture: senior management, compensation strategies, communication, training and measurements/metrics.

Senior Management

If your organization has a CEO or senior executive who believes innovation is important, consider yourself lucky. If, on the other hand, you have a CEO or senior executive team who consistently reinforce the need for innovation and "walk the talk" by sponsoring new ideas and pushing for more innovation at the strategic level and throughout the business, then your firm is well positioned for innovation success.

While many CEOs and senior executives in large firms will demand increased innovation from their teams, and state to Wall Street that the firm has a strong focus on innovation, a significant number of these executives never reinforce these proclamations with additional resources or funding. When push comes to shove, management attention is directed towards quarterly results and eliminating costs and risks. When mid-level managers and others in the organization see the difference between the innovation discussion and the investments and time commitments of the senior team, they recognize that innovation is urgent, but not really important. This leads to the logical conclusion that process excellence, cost cutting and other activities take precedence over innovation.

In firms that have had innovation success, a good portion of the credit goes to CEOs with the vision to demand innovation and the fortitude to invest the necessary resources. Looking at firms like P&G, 3M, Apple, Gore, Patagonia, Google and many other consistent innovators, the CEOs set outrageous expectations for innovation, and then find the resources to support innovators and consistently emphasize the importance of innovation within the business. Gore, constantly recognized as a successful innovator, attributes much of its success to its culture. In fact the corporate culture is documented on the corporate website, and the web page notes that Bill Gore, the founder and visionary leader of Gore, created and reinforced an innovative culture. Bill Gore is just one example of the impact a committed senior executive can have on the creation and focus of a corporate culture. On the other hand, in firms that don't have strong, committed leadership, there is an inconsistent focus and investment in innovation. Without strong, consistent leadership, innovation won't take root.

One of the main reasons that CEOs don't "walk the talk" is that they have an unrealistic expectation of the return on investment period for innovation. Most innovations require years to develop, mature as new products and services and achieve market benefits. While the development of a new product or service may take considerable time, executives are hammered constantly for quarterly results, which can distract them from the longer term benefits that innovation can provide. Add to this the fact that innovation is a game of statistics. Of the ideas that are generated, very few will create a significant difference to the firm. These facts suggest that a firm needs a long runway and a number of ideas in work at any time to see real results from innovation. What happens in most firms is that the senior team requests more innovation but expects results in one or two quarters, when the average product development cycle is longer than that. When innovation initiatives can't create significant new revenue and profits quickly, CEOs return to cost cutting and process excellence initiatives which have a faster payoff and lower risk profile.

What these senior executives need is a realistic view of the timeframe for innovation return and the resources required to make innovation work. Then they can make educated decisions about how much emphasis to place on innovation within their corporate strategy. The best way to accomplish this is to document the "life cycle" of an existing successful product in your organization. Look back over the history of the product, identifying when the idea was first initiated, when it was approved for product development, and the time it took for the idea to reach the market as a new product. Add to that the "ramp" time it takes for a product to become profitable. James Andrew addresses this entire timeframe and the costs associated with the lifecycle in his book Payback. When you identify the entirety of the lifetime of the product – from early concepts to mature product, your executives will gain an understanding of the true product timeline and can gain more insight into the time required to bring a new idea to life as a new product or service. With this information in mind, and the understanding that many ideas will fail to return their investment, the executive team can determine the appropriate scope and investment for innovation, and begin to sponsor and champion innovation appropriately.

You'll want to identify leading examples of the behavior you expect, so it may help to identify people who are already acting like an innovator, even if they weren't doing it with your purposes in mind. It will be helpful if you can identify a few executives willing to be pioneers or role models for the rest of the organization, to demonstrate the leadership and decision making that's necessary for innovation to succeed.

If your senior management team and key executives are not willing to invest in innovation, sponsor risky behavior or provide resources for an innovation team, you don't need to worry about changing the culture of your firm, since your initiative won't last very long anyway.

Compensation

As rational individuals, most of us do what we are compensated and motivated to do. If an organization has a focus on cost cutting and process excellence, it's likely that the compensation schemes encourage and reinforce those behaviors. In a business with a focus on cost cutting, few people will risk creating new products and services, since there is a significant outlay before the costs are recouped, and innovation has a significantly higher risk profile. The emphasis on Six Sigma, Lean and process excellence has honed our operational capability, however most organizations unintentionally discourage new product development and risk taking because there are no clear compensation strategies for innovation. Innovation requires taking risks far beyond those that are created when operating in highly evolved processes, and may require the violation of those processes or methods. Given the fact that we've actively discouraged people from adding costs, creating new products or taking new risks, the innovation capability in many firms is less than stellar.

The focus on operational excellence is such that in many firms it is hard to request even a 5% commitment of time from a small team to focus on innovation. Recently, we worked with a financial services firm that was attempting to become more innovative, based on the demands of a very proactive COO. Even though the COO had consistently emphasized the importance of innovation, we had an exceptionally hard time recruiting people to generate and evaluate ideas, because their compensation was based on their day to day activities and accomplishments, and the participants were afraid that they would be punished for spending time on projects not related to their day to day jobs. Think about that – people were concerned they'd suffer because they spent time generating ideas for new products and services!

How can you change this behavior? Innovative firms set expectations for active participation from their entire staff, and compensate people for that activity. Note that we are making a distinction between compensation and rewards and recognition. While rewards and recognition are important, it is paramount to drive home the point that people are expected to participate in innovation activities, and will compensated to do so. While not every firm has to follow the example of Google and set aside 10% of each employee's time for new products and services, these commitments demonstrate the investment the senior management team is willing to make. Changing the compensation of the individuals involved in innovation will demonstrate that management "walks the talk" and encourage people at all levels to spend more time focused on innovation activities.

This does not mean that you need to change every employee's pay package. It does mean you need to consider the early innovators and ensure their compensation does not become a distraction to their efforts on generating and evaluating new ideas. To impact your culture and make it more supportive of innovation, you'll want to include your Human Resources team as part of your innovation initiative. The Human Resources team can create new compensation models and identify roles and responsibilities that are tied to innovation, and once these new roles and responsibilities are in place, their motivation is tied to innovation, as well as the existing business model. Until people are compensated to take risks and recognize they won't be punished for doing so, it will be impossible to create innovation capabilities in any scale.

Communication

In many firms there are so many initiatives that pretty soon everything sounds like a three letter acronym. Employees are constantly bombarded with information about projects and initiatives that don't impact them, and often most people don't understand the context of the firm's actions.

Innovation often suffers from what we call the "flavor of the month" initiative – a new program or initiative the management team will announce, and then not follow up or apply the appropriate investment. We've previously examined two factors to change this perception – the focus of the management team and changes in compensation. The third factor that can change the culture of the business is consistent communication at all levels of the organization.

Beyond the commitment of the leadership team, it's necessary for that commitment and the expectations of the leadership team to be communicated to everyone in the organization, consistently and repeatedly. A market research firm found that a message needs to be repeated at least seven times to a recipient in order for it to be understood and put into practice. Given the number and breadth of communications any employee receives on a daily basis, innovation communications will be overwhelmed unless they are carefully planned and consistently relayed throughout the organization. A planned corporate communication program to individuals at all levels, emphasizing innovation and its place in the strategic framework of the company is required.

While senior executive commitment is important, the executives don't have to be spellbinding communications. The senior executives in question can be visionary leaders like Steve Jobs, describing new products to rapt audiences, or they can be much more pedestrian speakers and communicators. What's important is a consistent communication, delivered regularly through a number of different channels throughout the organization. One client we've worked with started a new innovation initiative, led by the CEO and CIO of the company. Using a number of different communication channels, including the corporate magazine, newsletters, email campaigns, voice mails and video clips, the CEO and CIO constantly reinforced the importance of innovation and every employee's role in innovation in every meeting and at every opportunity. This constant communication set the stage for reviewing strategic plans, evaluating senior executives and setting expectations throughout the organization about the importance of innovation.

Beyond the executive team, employees will change their behavior as they see the words of the executives put into action throughout the organization. This means that mid-level managers and supervisors need to "walk the talk" just like the senior executives do, and reinforce the communications and messages that come from the senior executives. Inconsistent communications or significant differences in tone or approach between the senior executives and the mid-level managers will leave the broad employee base confused, and when they are confused they'll fall back to safe, comfortable routines which represent less risk.

To change your corporate culture to make it more accommodating to innovation through communication, plan a consistent, cohesive communication strategy over a significant period of time. The communications should start from the top, and be consistently reinforced through many different channels and media. The messages and talking points should be passed down so that mid-level managers are not creating their own messaging but emphasizing and reinforcing the same innovation messages as the senior executives. When changing a culture, you cannot communicate too much, but it's easy to communicate too little or without a clear purpose. Identify a corporate communications team member to help you define your communication strategy and plan, and enlist senior executives to broadcast your messaging.

Training

Along with communication, training is another important factor in the transition to a culture of innovation. Communication tells people what to do, and training can teach you team the methods, processes and tools for innovation. In this case, the training should be focused on new methods and processes for idea generation, new roles and responsibilities for idea capture and evaluation and new attitudes and approaches for innovation.

Training is an important component of cultural change, since it is unrealistic to expect teams to take on new responsibilities and innovate consistently without giving the people within those teams new tools and methods. Einstein defined insanity as doing the same things over and over again and expecting different results. If you don't incorporate training on new thinking, new methods and new processes into your innovation initiatives and cultural change, you are expecting different results from the same processes.

Training does more than teach individuals new thinking paradigms or new processes. Training requires that individuals leave their "day" jobs for a short time and focus on new concepts and new capabilities. By taking people away from their day jobs and encouraging them to spend time learning new concepts, the management team is sending a very clear signal that innovation is important. Training also builds new networks and new relationships. As teams work together and learn together, they can find new ways to collaborate and communicate, adding to the potential of cultural change.

Identify the skills necessary for a successful innovation initiative, and evaluate your team's skills and capabilities to define gaps in their knowledge. Establish training programs leveraging internal resources and external collateral or programs to educate your teams on the important capabilities they'll need for innovation success.

Measurements and Metrics

The final factor is measurements. As we all know "what gets managed gets measured", so goals, measurements and metrics are a key part of any innovation initiative. Measurements, goals and metrics are easily tied to strategic goals and to compensation plans, so senior executive commitment, compensation and measurements are mutually reinforcing for the culture. To adequately compensate your team, and manage their activities, you'll need to know what they plan to do, and have the ability to measure their outcomes.

As you begin your innovation initiative, you'll have to measure throughput – the number of ideas generated, the amount of involvement throughout the organization and the amount of time it takes to move an idea through your innovation process. Simply establishing these metrics and setting goals will indicate the importance of the process. Your team won't have enough information yet to measure return or results. Over time, as ideas mature into products or services and are released to the market, your team can create outcome based metrics and measure the investment in an innovation program against financial returns.

Develop innovation goals and measurements that are tightly aligned to the strategic goals of your business unit or corporation. As your innovation process unfolds, identify ideas and measure the throughout of ideas across the innovation process. As noted above, this initial measurement will measure transactions and "throughput" more than return or financial results, since it will take a significant amount of time to identify the return on an idea. Interim measurements and metrics are important when the senior team needs to know what is happening and how the innovation focus is progressing.

Over time, as the ideas become new products and services, track their returns back to the initial work that was done to generate and capture the ideas, so your team can demonstrate the financial results of the innovation process.

Time

There's another factor that bears mentioning that can work for or against you. Time works against your cultural change when your efforts are inconsistent or unclear. Time also works against your cultural change when the executive team seeks very short payback periods for innovation that are simply not realistic. On the other hand, time works with you as your team consistently focuses on innovation and reinforces that focus using the tools described above. It is not possible to change a culture overnight – the adoption of any new thinking paradigm or process will take time, especially given the significant change in many businesses from operational excellence to innovation. Another factor compounding the time it takes to implement cultural change is the fact that your business must continue to operate – you simply can't stop normal operations to retool the culture. Finally, consistency over time is exceptionally important. Innovation can easily become the "flavor of the month", important in one period and jettisoned the next. You can impact the culture using the factors we've identified above, but your team must be consistent to its purpose and goals over time or the culture will revert to its existing focus.

Conclusion

Corporate culture – something that's powerful yet invisible – has the power to easily derail any half-hearted attempt to create an innovation initiative. While many experts identify corporate culture as an important factor in any innovation initiative, there are few suggested programs to indicate how to change a culture to ensure it welcomes and supports innovation.

In this paper we've identified five critical levers to help change the corporate culture. The first and most important one is senior executive commitment, based on informed decision making about the importance of innovation and the investment required. If your firm does not have strong executive support for innovation, your initiative will probably not succeed. Beyond executive commitment, other levers such as consistent communication, compensation, training and measurements can all build on the platform of support developed by senior executive commitment.