

Your organization has been acquired, reengineered, TQMed, and outsourced down to size. So where do you grow from there?

# Sowing the Seeds of Corporate Innovation

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In 1993 Jeff Mauzy of The Synectics Corp., located in Fairfax, Virginia, surveyed 750 executives at 150 U.S. companies on the subject of innovation. He found that 80 percent of the executives felt innovation was critical to their companies' survival, yet only four percent felt they were good at it.

Peter Drucker and other management experts say innovation is the one core competence every business needs to succeed today. Why?

- 1) An organization's underlying market value will be determined by its ability to innovate.**
- 2) Innovation is the only sustainable competitive advantage in an ever-changing marketplace.**
- 3) Future growth will be through innovation.**

Indeed, the bottom line on innovation—the word from Wall Street, if you will—is that companies noted for their ability to continually come up with new

products and services are the best investments. Companies that best meet changing market needs or take markets in totally new directions are more likely to have long-term success and, therefore, are worth more.

For example, by all objective measures, General Motors (GM) is one of the world's largest companies, and continues to be the largest U.S. company, with annual revenues over \$168 billion. Merck, one of the world's highest profile pharmaceutical companies, is significantly smaller with annual revenues of roughly \$19 billion.

According to *Fortune* magazine, however, the market value for GM is about \$49 billion, while Merck's market value is over \$106 billion. This means that even though the drugmaker has a little more than one tenth the revenues of GM, investors give it more than twice the market value. Buildings, raw materials for manufacturing, and even the durable items built by the carmaker have less worth for them than the knowledge-based products of Merck.

Data from the magazine's annu-

al report on America's Most Admired Companies shows that a reputation for innovation plays a major role in creating market value. In the 1997 poll, Merck ranked as the third most admired company in America. Its score for innovation, one of the eight categories voted on in the survey, was 8.23 on a ten-point scale. GM ranked 330th overall, and its score for innovation didn't even show up in the top 100 innovation scores.

"Making it to the top of *Fortune's* most admired companies list is a bit like scaling a half-dozen Everests at once," the *Fortune's* editors write in regard to exploring the role the mastery of innovation plays in business success.

"A company has to conquer a slew of damnably difficult challenges. Management, product quality, and financial soundness must be unsurpassed. Stock-holders must be seduced. A company needs to be an exemplary corporate citizen, and it has to attract white-hot talent. But to be genuinely admired, an ineluctable quality must be in the mix as well: a spark that ignites the workforce and allows the enterprise to respond readily to change. That ingredient is innovation, and all the top companies embrace it passionately."

### **How to create an innovative organization**

There are no step-by-step prescriptions for becoming more innovative, whether you are a CEO, mid-level manager, or frontline worker. No pills to take. No perfect models to replicate. There are, however, fundamental guidelines that can help organizations and individuals operate with open minds, stimulate and harness the collective intel-

ligence, prioritize the use of resources, direct daily activities, and align gifts and talents in new ways.

The key is to build your own innovation blueprint around three critical organizational elements: culture, management, and people. It is imperative to understand that each is intrinsically interdependent and mutually influential of the others.

### **Creating a culture of innovation**

Culture is what people are doing when nobody is watching, which is why it is such an ominous task to understand, define, communicate, and direct—and why so many people avoid dealing with it. Nothing could be more deleterious on the journey to organizational innovation.

To foster innovation—whether the target group is an entire

say, of course, that every organization gets exactly the results it wants. The point is that to become more innovative an organization must develop its culture in ways that define, lead, and nurture innovative behaviors and performance.

Observers often ask Ken Iverson about the stunning success of his organization, Nucor Steel, located in Charlotte, North Carolina. Beginning in a period when that industry was in steep decline in the United States, Nucor used innovation to rewrite the rules for the manufacturers of steel products. Underlying that innovation, Iverson says, has been culture.

"Seventy percent of Nucor's success has to do with culture and 30 percent has to do with technology... without a doubt, Nucor's culture is

There is a huge gap between what business leaders know they should be doing and what's getting done.

company, a division, or department—a group of key management-level individuals must be committed to creating an environment and culture that unleashes creativity, a willingness to contribute, and the ability to embrace change. Innovation can't be mandated, required by policy, or turned on with a switch. It has to flow from people.

A company's culture is built on its shared values, beliefs, and norms. Like the values and beliefs of individuals, culture drives organizational behavior. Every organization is designed to get exactly the results that it gets. That's not to

its most important source of competitive advantage, and it always will be."

According to Geoffrey Colvin, a columnist with *Fortune* magazine, no one expresses the power of cultural advantage better than Herb Kelleher, founder and CEO of Southwest Airlines, famed for its culture of humor and individual responsibility—and for 25 years of extreme customer satisfaction, profitability, and growth.

"Once—mostly to provoke [Kelleher]," Colvin says, "I tried telling Herb that culture wasn't all that important. 'I can explain

Southwest's success,' I said. 'You fly one type of aircraft, serve no meals, transfer no luggage, give no assigned seats, fly mostly short hauls, and always charge the lowest fares on your routes... What's culture got to do with it?' Perhaps steam did not actually shoot out of his ears, but it looked as if it would. He slammed the table and said, 'Culture has everything to do with it—because everything you said our competitors could copy tomorrow. But they can't copy the culture, and they know it.' "

Actually, Southwest's competitors have tried the "formula"—without the culture—and failed.

Again, there are as many ways to influence culture as there are corporations, but in the knowledge era, innovation is most likely in environments that nurture, excite, and engage people to willingly contribute their capacity to the intellectual asset base of the organization.

### **The role of integrity**

The key to creating a culture capable of perpetual innovation is integrity. You can't "fake" it here. Any discrepancy between what you say and what you do will be apparent and work against you. If it can't be done, don't say it. As Eric Harvey, co-author of *Walk The Talk* (Performance Publishing, 1995), says, "We judge ourselves by our intentions, others judge us by our actions."

### **The role of purpose**

The key to building and maintaining integrity is understanding that culture and management systems grow out of purpose—individual and organizational.

Purpose acts as the bond that keeps individuals and organizations working together; the stronger the purpose, the more cohesive the effort. Purpose provides guidance for day-to-day decision-making: "Does this particular action support our purpose?"

### **The role of meaningful work**

Knowledge workers need meaningful work. Innovative organizations need meaningful work. If your view of the purpose of your organization is limited to what you make or the services you provide, you face a major obstacle in becoming more innovative and, therefore, more successful. Why are

going to become outmoded faster than it has at any time in the past. [So,] you hang on to the idea of who you are as a company, and you focus not on what you do but what you could do."

Collins learned this lesson while working as a junior project manager at Hewlett-Packard. His team was charged with selecting its next project. It seemed clear to him at that time that the market was calling for an inexpensive IBM-compatible personal computer. He pushed the idea and was shot down because it wouldn't have fulfilled one of Hewlett-Packard's most important criteria for product development: to advance technology.

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you in business? Why is your organization managed the way it is? Why do you do the work you do?

Jim Collins is co-author of *Built to Last* (HarperCollins, 1994), which chronicles the history and inner workings of some of the most successful and most enduring companies in the United States. According to Collins, his research shows a correlation between purpose, longevity, and prosperity.

"Concentrating on products or services is a trap. It's not that what a company makes is irrelevant; only that we'll see more companies finding their identity in terms of their core purpose. ... It's more important than ever to define yourself in terms of what you stand for than what you make, because what you make is

### **Managing innovation**

The following five-step process is a useful framework for aligning management systems to make an organization more innovative. It's important to recognize that the specific actions taken in each step must be unique to each organization in which the process is used.

#### *1) Define and commit to an innovation strategy.*

Your definition and outline of innovation will be different from your competitors'. That doesn't matter. What does matter is that everyone in your organization understands what you mean by innovation—in the context of your business. It is not enough to simply write *innovation* in mission

statements, corporate reports, or memos.

All too often, that approach leaves everyone talking about innovation but responding with blank stares or vague approximations when asked what it means in terms of daily performance.

You need an innovation blueprint or master plan that describes how you will integrate innovation as a key strategy into the fabric of your organization. It should address management structure, product or service development, process improvement systems, customer service, and sales and marketing. It should set out specific innovation goals for the different areas and functions of the company.

Creating and committing to a definition of innovation is the responsibility of leadership. A vivid picture must be painted of what the organization will look and feel like when it is operating with an innovative culture. What will the company's commitment to creating this culture be? What mindsets must change? How will people think? What behaviors must change? What role will leaders play? What roles will employees play?

This task can be undertaken solely by the CEO, an executive team, guided by an internal champion, and/or with the assistance and facilitation of an outside organization. In any case, the importance of visible and concrete support from top management of what innovation and people-centric elements look like in day-to-day practice is essential.

This point is highlighted by a study of 350 executives from companies in 14 industries done by the Arthur D. Little Co. in Cambridge, Massachusetts. Six factors were cited as being most

important to the successful implementation of any organizational change. The factors cited most often were:

**95 percent : A clear vision of the proposed change.**

**94 percent: Management's support through actions, not just words.**

**90 percent: Measurable targets.**

**83 percent: Doable targets.**

**76 percent: The improvement sought is perceived as being worthwhile.**

**74 percent: Employee empowerment.**

Don't try to make the change overnight. But also don't get started down the road to innovation if you don't intend to commit the resources.

## 2) *Assess your innovation climate and target your resources.*

Once an innovation strategy is created, it's important that management acknowledge and appreciate the areas of the organization that are currently doing well in stimulating creativity and innovation. It is critical to build on success. Setting out to become more innovative should not carry the message that everything being done today is wrong or not innovative. There also are, of course, aspects of the organization that are inhibiting innovation and must be addressed.

Even if management believes it understands the organizational stimulants and obstacles that are encouraging or inhibiting creativity and innovation, it is advantageous to objectively evaluate these elements. The evaluation or assessment can be formal or informal. The insight will provide an innovation "gap analysis" showing where the organization

is today relative to the clearly defined—and improved—innovation strategy.

There are several other additional benefits that an objective, up-front evaluation can provide to a change initiative targeted at increasing innovation:

•**First, it provides an ability to focus resources.** It pinpoints the specific and critical elements—the management systems, behaviors, work conditions, and so on—that discourage employees from achieving peak performance and makes them unwilling or unable to take reasonable risks, generate ideas, and embrace change in ways that can augment success.

•**Second, involving the employees in the process communicates management's commitment to making innovation elemental.** Respecting employees' concerns and ideas about what in the work environment fosters or inhibits creativity begins their involvement in the solution; it engenders buy-in and ownership.

• **Finally, the outcomes of innovation climate assessments also serve as a baseline** against which an organization can measure results and target future, specific strategies to enhance innovation.

## 3) *Align structures and systems to support a culture of innovation.*

Although culture can't be held in your hands, there are tangible methods to mold it. Those methods are the structures and systems upon which an organization operates—the policies and procedures, management structures, and processes that define everything from hiring and firing practices, performance appraisals and training, to reward and recognition, as well as information-management systems.

Becoming an innovative organization mandates a “systems thinking” or holistic approach to the structuring of the organization and its systems. In this paradigm, the organization will need to, in the face of adversity or market change, be able to think, adapt, respond, and remember—as an organizational whole—to stave off competitive threats.

Experts in the human-resources field who focus on performance management have argued for years that if you put good people into a bad system—for instance, putting knowledge workers into a hierarchical command-and-control industrial environment—the system will win every time.

Organizations that use a systems-thinking perspective are forced to look beyond individual mistakes, personalities, and events to understand what underlies their problems. Instead of providing a simple way to affix blame, the systems approach guides us to look for ways to fix the underlying structures that shape individual action and create the conditions that encourage certain kinds of behavior and performance. Systems thinkers have grasped a profound and different insight: systems cause their own behavior.

The point: put good people into a bad system and the system wins. Put good people into a good system and everybody wins.

#### *4) Involve the entire management team early in the process.*

Central to the success of creating a perpetually innovative work culture is the requirement that managers at every level be deeply committed to promoting human creative energy and translating it into

collective business results. If we are expecting innovation at the front line, it must be lived by example in the management ranks.

Unfortunately, from the executive suite the need to be more innovative can seem like a no-brainer, and in the excitement and haste to get “there,” the essential step of involving the upper and mid-level management is often skipped. Great new innovation initiatives and directives are laid out and announced. Training is implemented to improve creativity, problem solving, decision making, and so on, only to have the resources wasted and the initiative relegated to another “program-of-the-month” by a threatened, cynical, and passively resistant management team.

Why would we expect anything else? There is no ownership, commitment, and involvement by the group that is in the best position to make the transformation happen.

The role of the manager in the perpetually innovative people-driven organization is to manage the environment or context in which the work is done, rather than controlling the workers themselves.

#### *5) Maintain the innovation momentum.*

From the beginning, institute a continuous process of planning, implementing, checking, refining and acting upon needed improvements to the innovation strategy. It’s vital to continually evaluate what’s working and what’s not when it comes to efforts to foster innovation. Training needs will change. The effectiveness of rewards and incentives will change. Your definition of innovation will likely evolve. But you will know you are

on the right path when the predominant philosophy is, “If something’s broke, fix it; if something isn’t broke, fix it.” You’ll know the organization is evolving into being perpetually innovative when you understand that what’s working today won’t be working tomorrow in a radically changing marketplace.

The competitive advantage of having an entire organization operate based on innovation-driven goals is significant. To make sure this kind of endeavor doesn’t fall into becoming the latest management fad of the month, management must remain consistently supportive of these core competencies and patiently and persistently develop and evolve exact action plans over time. It’s important to develop a long-term plan for creating and sustaining an innovative culture. It helps to conduct ongoing learning events and to develop new resources and strategies as needed. Basically, this step entails an ongoing process that ensures progress toward goals, modifications as needed, continuous improvement, the development of new learning tools as needed, and continual alignment and realignment with business objectives.

To reach these goals, corporate leaders need to nurture the mindset and environment where people feel safe and valued in contributing in ways that will foster innovation—to create an environment that evokes commitment not compliance. And then it is up to each individual to take personal responsibility to contribute within that culture.

#### **Wanted: innovative individuals**

Who would argue against the wisdom of building an organization



## In innovation, managers need to master:

- An enhanced appreciation of the role change plays in continuously reshaping business strategy and remaining competitive.
- A new mental framework for proactively dealing with business challenges in positive, innovative ways, despite continuous change in the marketplace.
- The capacity to lead others through change.
- A greater appreciation of the inherent opportunities residing within ambiguity and uncertainty.
- The confidence and desire to pursue reasonable risk-taking.
- The ability to foster the innovative contributions of the people they manage by leveraging emotional energy, strengths, and past successes and by managing weaknesses.
- The understanding and skills needed to manage and lead innovation at two levels—individual and organizational.
- The leadership behaviors that foster organizational innovation.
- The keys to creating trust in the workplace.

on the strengths of workers and the needs of customers? The reality, however, is that many organizations continue to understand best, and invest most, in their hard assets, and tend to waiver about the value of sinking time and money into developing the intangible assets that define intellectual capital.

Here's the justification to reverse this trend:

**1) The market is in a state of constant change.** Consumers want better, faster, cheaper, more customized products and services. Global competition, speed of development and delivery of new products and services, and the use of ever-more-powerful technology keep raising the basic stakes for remaining a viable player in any market.

**2) Organizations, in response to this ever-changing marketplace, continuously reorganize and evolve themselves to meet the challenge.** Anyone involved in any of these

organizational shifts in the past couple of decades can attest to one thing: the problem in achieving successful results was not how well the plan was laid out, but, ultimately, how well the people adopted and implemented the changes.

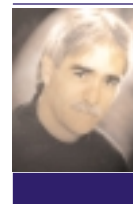
**3) Individual knowledge workers must be capable of continuously understanding, embracing, implementing, and even leading change** and creating the innovations organizations need to meet market demands.

### **Organization and the individual: taking on their roles**

If a company wants change and innovation, will individuals make it happen? Will teams? Will divisions? If not, why not?

It's easy to stay locked in the us vs. them mindset and to point fingers. It's easy for front-liners to blame problems on high-pressure hierarchical organizations or tyrannical bosses.

And it's just as simple for managers to argue that it's individual bad attitudes that are the cause of all troubles. Real-world experience, however, says the organization and the individual both have a role to play.



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