

# Leading Innovation: Change and Sustainability

By Susan Abbott of Abbott Research & Consulting for Schulich Executive Education Centre, Schulich School of Business, York University. Roundtable discussion moderated by Alan Kay of The Glasgow Group and Rick Wolfe of PostStone.

This is one of a continuing research series that has been bringing senior managers and executives from diverse sectors together to uncover the best practices in managing innovation.

## Executive Summary

A central theme in this discussion is the need for leadership to clearly and consistently articulate the vision and describe what success looks like. They then need to engage people at all levels in innovating to meet these goals. The most successful change efforts related to innovation bring together the best of leader-led and high-engagement, high-participation efforts.

Goals for innovation need to be articulated in such a way that everyone understands the need and the linkage to profitability and competitiveness in the business. When these linkages are not clear, individuals may appear resistant to change, when in fact they could be major supporters if they were operating from a position of knowledge.

Alignment throughout the organization is essential if innovations in organizational processes are to be sustained. This means explicitly addressing situations where individuals stand to lose influence or authority as a result of changes, addressing compensation and incentive issues, as well as key performance metrics.

Individual departments or groups that try to address large challenges on their own can create problems of alignment, because they fail to manage the impacts on other parts of the organization.

Leaders who become impatient risk shifting focus too soon and losing any gains made. The return on investment will only come from a sustainable change, where project activities are converted into institutionalized processes through a deliberate effort.

*"We've just come out of an era where a lot of innovation came from IT. IT was driving innovation as opposed to industry driving innovation. It's created a lot of challenges [and] now we are coming back to business in the basics [and] not doing things because systems says that's the way to do it."*

*BOGROB*

*"I have the same thing going on, where our IT call themselves "Director of Innovation" [on their business cards] and I'm thinking: no that's wrong, innovation is not only about technology."*

## ROI: there's no "free money" for innovation

Innovation initiatives need to be linked to potential return on investment. If they aren't, an organization can travel a long way down the innovation path before finding that customers don't want the innovation or it can't be commercialized.

*"My take on innovation as a base definition – it has to [have] return on investment in order to be considered real innovation. It has to return profit to the table or it is simply idle creativity or invention."*

When management starts talking about the need for innovation, the CFO perspective often is that this is an invitation to spend money, not to improve profitability and competitiveness.

*"I've been tasked with coming up with an innovation strategy within our business unit. ... I find a lot of times when people think innovation, they think free money. It's good to have a structure around innovation so people know what the process is: [how to] come up with ideas, how to implement."*

In the absence of a clear business reason for innovation, everyone can lose the focus and persistence needed to make new ideas stick. This issue of sustainability ran through many aspects of the discussion, and was closely linked for most to best practices in change management.

## Innovation strategy: do you have one?

Organizations can talk a lot about the need for innovation, but in the absence of an actual innovation strategy most of the organization may be unclear about what is expected and what is permitted.

The role of leadership is to identify the scope, scale and mandate of innovation and to identify the need for it and set the criteria for success.

*"Leadership has two challenges in dealing with innovation. The first is articulating what they expect of the rest of the organization as far as objectives and how they are going to achieve their innovation. The second is [that] leadership has to stay the course."*

Once this is done, leaders would do well to involve everyone in the organization in creation of the response to the challenge.

*"The leaders are responsible for stating where we want to get to. If you engage staff in how to get there, that's where you will*

*"If you can't change the people, you've got to change the people."*

*get ... better ideas. When leaders get too involved, then innovation stalls because they are not thinking forward. Leaders can actually stall innovation."*

Having described the goal to be achieved, leaders need to go back to their own work of thinking forward, and give the organization room to deliver.

### *"We figured it out as a group"*

One panelist told the story of a major change at Yahoo that followed the model of the leader defining success, but acknowledged that the entire organization would need to create the path to the goal.

*"I was [then] working for Yahoo and what the leader at the time said was: 'Our business model is 90 per cent traffic-based and 10 per cent subscription. And in the next 18 months, we have to be 65/35 because we are changing market. I leave it to you to figure out how to do that.' So the leader presented the facts as he saw them to provide the global view and then it was up to us to figure out how to do it. We figured it out as a group – how we were going to change our Canadian business model to meet the goals."*

### *Moving from static to flexible strategy*

One transportation organization has found that their current external environment is now so volatile that they cannot adopt a single approach for dealing with things such as hiring policy. Their solution was to create a flexible strategy and help people in the company understand the new method, whereas in the past there had been one static policy.

*"People understood that it wasn't going to be the same all the time."*

The notion of flexible planning is such a significant departure from the historical approach in this industry that success hinged on helping people understand the new approach, so they didn't just think the goals were always changing.

### *Developing a common language*

Having a common language to talk about the business can be very helpful in creating organizational alignment.

*“Some of the initiatives I’ve been involved with have taken three years to implement. What I’m seeing is impatience. They want to see the ROI right away and I understand that but they are not putting in the infrastructure for sustainment. So as soon as the project team walks away then the inspection goes away.”*

For one organization, this was achieved by putting a large number of employees through National Quality Institute training. This happened in parallel with a major change initiative led by a project team.

*“Now, three years later, we have health and safety consultants talking about the revenue implications of dealing with the client.... They are focused now and speaking the same language. It’s been a fairly effective combination of the formalized training through a structured program and having a pushy team ...overcoming any obstacles. Because there was definitely strong resistance from certain quarters within the organization.”*

### **Leader-led or people-led: bringing top-down and bottom-up together in the organization**

Although this distinction was discussed at some length, it ultimately appears to be spurious: the most effective change processes to support innovation bring all levels of the organization into alignment.

Leaders who send mixed messages, or aren’t seen as personally engaged in the vision, can stall even the best-organized change effort.

*“At the top, the leader can’t be disconnected, because they have to be consistent. As soon as they start going off in some other direction, they send the message ‘it’s not important’.”*

When the parameters for action are clear, small groups inside an organization can mobilize significant innovations without direct senior-level involvement. They can be confident in their ability to experiment without fear of negative repercussions.

One example of a major innovative shift in organizational processes coming from a small group is the change to flexible work arrangements adopted by Best Buy, and widely documented in the business media.

#### ***One spokesperson or one message?***

Most managers who have been involved in successful change efforts felt that having one consistent message that is widely delivered, is more important than having a single spokesperson for the change mission.

However, it can greatly help the organization if the people involved in or leading the change are credible throughout the organization. There’s

*“The whole boundaries of success, the whole basis for moving forward in the organization is changing. That makes people very unsettled, very uncertain. You’ve got to recognize that and come to grips with that.”*

no substitute for having someone involved who has a career history that touches a number of front-line operating areas.

## Managing the fear

Where an organization is experiencing significant external pressure, such as from new competitors, shrinking markets or rising fuel costs, the impetus for finding new ways to do business is clear to management.

Communicating the need to people throughout the organization requires finding a balance between emphasizing urgency versus causing panic.

*“Our biggest challenge was getting people to realize the seriousness of the circumstance without creating panic or exodus of some sort.”*

Fear can slow down action. There can be a lot of good talk about the need for change and the new vision for the organization, but without buffering the impact on individuals, people will hesitate to act.

*“There are a lot of people who are truly afraid of actually executing against [the new vision] – change management is a very scary place for a lot of people.”*

If the recent history of the organization is one of intensive cost-cutting, or if past change efforts have derailed, the organizational climate will not be conducive to individual risk-taking.

Most of the innovations that organizations need to embrace are incremental, not disruptive in the sense that Clayton Christensen defined the term. Most are innovations that help an organization get incrementally better at what they are currently doing. If these innovations are presented as major changes, however, this ignorance can create unnecessary fear.

*“Ninety-eight per cent of the people you deal with don’t understand that. Out of that ignorance, is fear. That’s a tremendous barrier for success.”*

## Reduce the fear with high participation, transparency

There is considerable benefit to be realized by bringing as many people as possible into the conversation when significant changes are needed to preserve the future of the organization.

*“Credibility comes from having been in different parts of the organization as well. So [you don’t send] somebody ... to a sales meeting that nobody knows, they can’t relate to, they never sold a bottle of beer in their life, is telling me to change.”*

One panelist told the story of a smaller organization that announced the date by which it would reduce its employee base by 30 per cent. They provided generous severances and out-placements, and invited people to make a decision as to whether they wanted to be part of the new organization or preferred to leave.

*“They set up three teams to look at sales, operations and ... finance. So we did this re-engineering ...cross functionally. They were communicating all the time. ... It was exciting.”*

Most executives would worry about losing their best talent under these circumstances. The panelist described the opportunity to be part of this major shift as one of the most exciting times of her career.

*“They gave us six-month's notice and gave us the opportunity to contribute. I had the opportunity to leave but I didn't. It was too exciting. I needed to stay and see the next part and the next and the next.”*

## Building sustainability

As we have heard in this project before, it is easy to quit too soon. Sustaining changes in the organization requires bringing all the enablers of the new methods into alignment.

*“I’m thinking that what we need to do in the last third of the change project is get a parallel-sustainment team going because we see what we need to do but we are so busy checking the old project plan lines that we are not able to get to those things. But we do want the return [on investment].”*

## Getting started

### Translating success in one area to other areas of the organization

Executives agree that a very productive place to begin an innovation process is to look at where in the organization some issue may have been addressed well already and where learning can be transferred. In practice, executives find this challenging to achieve.

One example provided was of a company strong in product and scientific innovation, with good global collaboration and cross-functional development work, and producing innovative products. This same organization is now trying to find ways to translate that success

*"We need to create capacity. We should be [asking] once in a while, are these activities ... really necessary and what can we drop?"*

into other parts of the business, and it is proving more challenging than initially expected.

*"[We are] trying to get some of that product innovation and that process and trying to apply it to our business and our customers and we are having some success but it's limited. I'm looking for ways to add to that process and build the confidence within the sales team to change the way they do business and interact with our customers."*

## **Making the time to make it work**

Organizations often do not have a lot of surplus capacity. So entire areas, such as sales, may feel they cannot take time away from their activities to be part of a corporate change initiative. This is when senior leadership has to mandate the activities or they won't happen.

*"Senior leadership has to stay the course, has to drive it and say 'you will take a third Thursday in February off,' and if it's two days or a week or six weeks – whatever it is, you will do it; because if you don't do it we will stay where we are today; we will never change the way we do marketing."*

## **Managing the gains and losses to individuals**

When organizations take on the challenge of embracing large-scale innovation, they significantly affect the organization. Managers in key roles in the new area will gain influence and authority while those in other areas experience a loss to their influence and authority.

*"The prospect of change affects not only the way they do things on a day-to-day basis but also affects their power base. People have a really hard time dealing with that, particularly in traditional organizations."*

The more dramatic the changes wrought by innovation, the more important it is for the organization to directly address these issues, rather than hoping they will manage themselves.

## **Impact of automation on skill level**

When the lowest complexity work is eliminated, perhaps through automation or outsourcing, the overall skill level required at that level of the organization actually increases.

*"If somebody thinks you are crazy, you need to allow that to happen either publicly or one-on-one without any fear that they will be fired. Sometimes what you are expounding is BS."*

As a less-obvious impact of the changes being made, adjusting to the implications may come late in the process.

*"The [facility] in Toronto is exciting because they are struggling with identifying automation versus employees; motivating them to work with [systems] that ... eliminate some of the less-skilled jobs and helps increase the skill level of the employees."*

For any employees who cannot make the jump to the more complex work, these changes will have a lasting negative impact personally.

Some of these impacts are relatively subtle, as well as being distant from the executives, and as a result may be discounted or missed.

## Reign in your white knights and leverage your "grizzly bears"

Single strong areas in an organization sometimes think they can address innovation on their own, without involving anyone else in the organization. When they try to act alone to effect major changes, they do not anticipate the impacts they will have on the rest of the business, which can cause problems with organizational alignment.

*"The alignment was and is still a challenge although we've identified it and that is half the battle. ... Getting one department with the biggest strength in the company to realize they cannot just effect change for themselves without realizing the impact they have on the rest of the business."*

When executives see people reluctant to embrace their vision of the future, they can interpret that as resistance to change on the part of the people involved.

Sometimes changing the players can seem the like only real option.

*"If we don't start making some tough decisions and firing those people if they don't want to get on the bus ... we [will] just continue to flutter along in the same situation."*

Others had experienced situations where people only seemed resistant to change because they didn't understand, or weren't involved.

*"I was interested to hear that you have to fire people in order to make change. ... We had a certain group that just didn't want to change. One thing we didn't understand was why. Some of that was fear of what was going to happen. Once we understood that, those people we thought we would have to fire*

*"You can put in the processes, add in the new product. You can put in the back-end customer-relationship-management piece. You can do all those elements, but if you don't have a change-management process for the people within the organization then all the innovations, all the work you are doing are probably going to fall flat...."*

*ended up as the strongest motivators in leading the team towards change. To watch and realize that here you have the talent you were probably going to have to fire or send off somewhere, when you could turn that around and make them want to be your strongest employees."*

One individual calls these people 'grizzlies' – they are the toughest to convince, but once convinced, they are the biggest supporters.

## Getting performance enablers aligned

### *Organizational climate*

To help control the fear that comes from ignorance and uncertainty, the organization needs to create a very open climate for discussion.

- Understand what people are worried about
- Understand what parts of the change are seen as positive, what parts as wrong and why
- Make it OK to disagree
- Share enough information that people understand the whole context and the rationale
- Deal with previous negative legacies in the organization, such as past initiatives that failed
- Provide abundant opportunities for feedback up, down and across the organization
- Involve people at all levels in the change effort, so that they can be part of the creation

### *Incentives*

When people are measured and compensated on a specific set of measurements, they are unlikely to embrace activities that will cause them to be less effective on those measures. Although obvious, this is frequently overlooked.

*"Nothing gets implemented fully or permanently in a sustainable fashion if it's not in the best interest of the person you are asking to change the behavior. ... I cannot tell you how many clients I have walked into of any size, that the change in behavior requested is not accompanied by the change in compensation or bonuses. What gets measured gets done."*

*"We managed to turn our organization into a whole bunch of little measurers. They want to measure everything now, every single solitary project. In many cases, it's irrelevant to your business."*

### ***Adjusting your aim based on measurement***

Measurements are needed to evaluate the efficacy of the changes and innovations. There's a balance between having too much and not enough.

One organization represented on the panel has undergone a major expansion in their product and service portfolio, without putting adequate measurements in place. That's now their current year priority.

*"Are we leaving money on the table because we are not marketing it efficiently, not selling it properly, or is this a product the market doesn't need...? That's the next phase we are implementing. How do we get smart about this and start tracking it more. It's a piece of follow through that is critical; otherwise, you can't follow through properly. You can't adjust your aim."*

### ***Too much measurement can overwhelm***

Too many metrics can reduce focus on the most important outcomes, and even become a distraction from the real goals. Maintaining the measurements becomes the end instead of the means.

Leaders need to keep whittling down the old measures when they add new ones. It can feel like radical surgery at the time. As one executive put it:

*"I thought I would get lynched for heresy when I threw out half the measurements for the project I was running. ... I got a lot of strange looks."*

### ***Wrong metrics don't help***

Sometimes the measures and reports provided to line managers are not very useful to them. This leads to what one called "the sticky note method" – managers who have created and are manually tracking their own metrics, because they are more useful to them than the ones provided by the management information systems.

### **Entrepreneurial companies institutionalize change**

In one entrepreneur-owned business, the owner has successfully institutionalized the concept of continuous change. The company is very customer-focused and their innovations are customer-driven.

*“He institutionalizes the whole idea that what we do this year is going to be different from what we did last year. So he has created a culture for an expectation throughout the organization of change is coming - get on the bus. ... That drove home to me how attitudinally you introduce something throughout the organization where people have expectation of doing things differently on an ongoing basis.”*

Smaller organizations often have to embrace larger-scale innovation just to stay competitive in a market. This is especially true where there is no ongoing expectation of cash flow from existing operations. They are forced to be more participative in their change-management style because of their size, and this is helpful.

*“The level of visibility ... and the importance of everybody is so much more critical in smaller organizations, so it’s a big deal if John decides he doesn’t want to participate in the new innovation.”*

Bringing innovative processes to all parts of the company relies heavily on using best practices in change management, an element not necessarily required in product innovation.

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For more information about the Business Pulse Project on Innovation, please contact Alan Middleton, PhD. or Elaine Gutmacher at Schulich Executive Education or any of the research partners listed above.

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#### Resources mentioned by panelists included:

- "The Heart of Change: Real Life Stories of How People Change Their Organizations", by John Kotter, Harvard Business School Press, 2002. (*This is the source of the 'glove story' that was mentioned to attendees at the roundtable discussion.*)
- "Smashing the Clock: No schedules. No mandatory meetings. Inside Best Buy's radical reshaping of the workplace", Business Week, Dec. 11, 2006.
- "The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail", by Clayton Christensen, Harvard Business School Press, 1997.
- National Quality Institute information can be found online at <http://www.nqi.ca/>