

Leading Innovation: Get Comfortable Failing

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

Risk management is a key leverage point that innovative organizations learn to manage effectively. Organizations need to consciously create conditions conducive to innovation, which means communicating clearly where innovation is desired, developing systems for capturing and developing ideas from all levels, making innovation part of normal accountabilities, and managing the career risks for individuals. Failure needs to be redefined as learning, and celebrated as a necessary pre-condition for success.

There should be no shortage of good ideas in any organization; the real challenge is to surface, nurture and then select the right ideas to pursue.

The forces of competition and globalization that encourage innovation in the private sector do not seem to have touched most of the public sector, in particular health care, where any change threatens established relationship power dynamics.

Innovation requires failure

Any drive to innovate will inevitably lead to failures, some of them very visible. To be successful with innovation, an organization needs to come to terms with this risk-return tradeoff.

Business leaders at all levels are acutely aware of the competitive forces that provide a compelling case for innovation, where those forces exist. Where there is no compelling need, or no incentive for success, the risk of failure quenches the innovation spark.

"We still have to look at profitability. Innovation may take away billable hours. Are we prepared to make the risk?"

"It's that layer underneath that are at the most risk. So that's the layer where they tend to want all the reward but none of the risks. They don't seem to realize that they are the ones, in many ways, that are tamping down that process of innovation."

"Controlling history:" redefining failure as learning

People will draw their own lessons and learning out of organizational successes and failures. When an attempt to innovate fails, leaders need to manage the message, define the lessons learned, and ensure that people take the right lesson forward for the organization's cultural history.

A practical approach leaders can use to *"control the history"* is to be visible in celebrating failure as learning, or risk having staff draw their own – likely negative – conclusions about consequences for trying something new and being wrong.

Protecting the losers

Because meaningful innovations create winners and losers, the best systems for managing innovation recognize this and anticipate the needs of the people who stand to lose. Anticipate and manage the issue by finding ways of integrating them in the process, and finding some benefits that this group can participate in.

Protecting Middle Management

Senior middle management is the group most in need of protection from risk in large corporations. The top level of executives is in the strongest position to manage the risk-reward trade-off of innovation.

"They love ideas; they are screaming for ideas all the time."

The next layer down, however, is keenly competitive at an individual level, for a small number of available promotions. This is also the layer charged with meeting operational goals, managing consistent earnings, and delivering the business plan.

As one executive said: senior leaders don't intend to kill innovation, but this happens because of the way incentives are set up for other layers in the organization.

*"In any organization, there's a point where rubber hits the road and you just want things to be done a certain way. The people who make sure things are done a certain way are your middle managers. So we reward our middle managers for keeping the thing on the rails. We tell them, don't get too sidetracked ... keep it on the road, keep it going. We drive that **hard**. And then we flip around and say, 'how come you guys don't accept change?'"*

“Our North American disease is to think there is a relationship between motion, activity, speed and innovation.”

~

“Asia’s pace is 100 times faster. Busy is not what people talk about.”

Productivity is Easier than Innovation

Our culture of busy-ness is a barrier to real results. We are less productive than other countries that have less frenetic work styles. We may have confused being busy with being productive.

At the same time, pushing for productivity improvements is seen as fundamentally easier than finding innovative ways to compete.

The banking sector was named as one where profits come too easily on the home turf, so the risks of expanding globally always offset the benefits.

Health Care Sector Lags Significantly

Panelists observed that the health care sector, filled with highly trained knowledge workers and scientists, has been extremely slow to innovate in the areas most critically in need of change.

The funding model is seen as one reason, because it provides few upside rewards to innovators. But systemic change, especially in the area of electronic records, is not being embraced by those who will be most impacted – individual physicians.

“The reason doctors don’t have great electronic record management is because they’re terrified about it undermining their centrality in a system which they know is anarchic and chaotic. And so we don’t deal with the problem because ... the end users don’t want to have exactly the benefit that electronic record management is proposed to deliver.”

Reinvention in Professional Services

Creativity is a core product of some businesses, such as advertising, marketing and public relations. Clients expect creativity as part of the package. Innovation feels second nature to these businesses.

Reinventing the nature of the business in these industries is proving to be a bigger challenge. Traditional consultancies are steadily moving in to marketing and related spaces, and at the same time, the marketing firms want to be valued more as strategic partners. They are looking for new ways to add value to their clients and create new revenue streams, and this is proving to be a demanding challenge.

Another challenge facing this sector is protecting the innovations they do create, which can usually be quickly copied by others.

"There is never a shortage of ideas. It's not the software or the opportunity to share ideas that is the issue. The issue is the gap between the idea and value creation..."

You have to find a way of making it an accountability for everyone."

Public Policy Innovation

A fairly consistent view has been echoed in the group discussions so far that the government must get out of direct management of businesses, and direct control of industries.

"The Canadian Wheat Board is a classic example. In the 1930s it was very important. Farmers didn't have ... the ability to know when they were being treated unfairly. What do you say to a farmer who's got an internet connected computer in the cab of his combine to explain why a bureaucrat in Winnipeg should be setting pricing on his product?"

The policies that make for good politics aren't necessarily the policies that are right for the needs of the nation.

Implications for Leadership

Being clear about scope

When leaders ask people to be innovative, they need to be much clearer about where innovation is desirable and where it isn't. The process for surfacing and developing ideas also needs to be clear:

- How are innovative ideas gathered and managed?
- Do people know how to sell their idea into the organization?
- Is there a process for mentoring and developing innovative ideas into success?

By defining the scope and range of innovation the organization wants and is prepared to seriously consider, people avoid losing time and commitment working on the wrong things.

Ask twice

One investment advisor noted that he now asks clients to review their risk tolerance twice: the first time with him, and the second time alone at home, because their risk tolerance changes. Leaders who want clear communication on innovation might do well to consider this pattern.

Stay out of tactics

Senior leaders too often become involved in tactics, instead of giving the authority, the budget and the accountability to the parts of the organization that should be doing creative tactical work.

"You can't have somebody off isolated in the innovation department. That just doesn't work."

"The leader has to stay at the strategic level, and give the front line the freedom to do what they need to do to make the company innovative. It's a huge challenge."

What is Innovation?

Innovation has become such a popular topic, it is easy to assume we have a shared understanding or definition.

For some, innovation is creativity.

For others, it is solving business problems in a new way or a unique way, such as translating solutions one sector into another.

Historic inventions are not generally just about the product. For the light-bulb to succeed there needed to be an electric power infrastructure.

Xerox's success with photocopiers was as much about their sales and service processes and their financing models as it was about the patented xerography process.

The Age Versus Experience Debate

The notion that innovation and creativity is the domain of youth is an idea that has surprising durability. The belief is that twenty-somethings will have a better chance of coming up with innovative ideas because they are not burdened with the history and the experience that can create barriers. The technology sector may have relied too much on entrepreneurial visionaries to lead innovation.

Highly visible examples of creative thinkers and innovators past mid-life, such as Frank Gehry and Steven Jobs have not dispelled this notion.

Others see a clear distinction between creative process that involves the design of a single product, an advertising campaign, or perhaps a manufacturing process, and systemic innovations that involve people delivering services.

"When you are dealing with the delivery of services, you are dealing most often with the performance of human beings executing ideas. And in the performance of people delivering service, wisdom matters much more than energy; experience matters much more than inspiration."

Instead of focusing on the young, some see diversity in hiring as a better route to bringing fresh thinking into an organization.

“... the major pension funds; even though they are performing ...they are still under-funded. The largest - OMERS, Teachers - could collectively force a longer term focus on executive compensation, so they can get a long term focus on 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:

TRIZ – the Russian acronym for Theory of Inventive Problem Solving, developed by Genrich Altshuller and his colleagues in the former USSR starting in 1946, and is now being developed and practiced throughout the world. TRIZ began with the hypothesis that there are universal principles of invention, and is the codification of those principles.

Thomas Kelly and Jonathan Littman, [The Ten Faces of Innovation : IDEO's Strategies for Defeating the Devil's Advocate and Driving Creativity Throughout Your Organization](#). Random House, 2005.

Eureka Ranch – a Cincinnati based training and consulting firm