

## Leading Innovation: Tangible Tactics

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

The focus of this session was on the tangible tactics and strategies that enable innovation. The tactics discussed divide broadly into two groups: tactics that are useful for creating and managing ongoing innovation, and tactics that are useful for managing disruptive innovation. Some of these tactics are almost opposites, making it important to recognize what type of innovation situation is involved.

While all organizations are facing a rapid pace of environmental change, it is still important to innovate at a pace consistent with the customers, neither too fast nor too slow. Employees are often very aware of the external competitive environment and need to understand leadership's view of the market landscape and dynamics.

Senior executives need to focus more on the 'what' of innovation and less on the 'how' of innovation, which should broadly engage all levels of the organization.

Industrial-era thinking about top-down strategy and planning continues to pervade management thinking, but tends to constrain innovation, and organizations are groping towards new approaches. Current planning and budgeting tools in widespread use are also not strong enablers of nimble, emergent strategy in a rapidly shifting environment. The military philosophy of Observe-Orient-Decide-Act (OODA) may be a useful mindset to bring to emergent strategy.

Metrics for innovation are important, but difficult. Most organizations' performance objectives related to innovation do not allocate time or resources on a widespread basis. Organizations that have innovation metrics in place are not necessarily satisfied with them.

Consistently innovative organizations look at failure as essential learning and find ways to manage the risks to individual careers, as well as financial and operational risks.

## Disruptive Innovation

*“The only way an incumbent company can cope with an onslaught of disruptive innovation is by setting up a separate company or at least a separate division with, preferably, an ocean or at least a national boundary [between them].”*

Panelists agreed that the challenge of fostering sustaining innovation in an organization is very different from managing in an environment of disruptive innovation, where “the rules of the game” are changing.

### Get the innovative group away from everyone else

Hewlett-Packard’s development of the bubble-jet printer was successful in part because the group was able to develop in Vancouver, B.C. across a national border from the established LaserJet business. Similarly, Intel moved Centrino development to Israel, in order to keep it away from the existing high-margin chip business.

### *Separate sales force*

Although a customer-centric sales process usually means integrated sales and relationship management, in both the cases cited above, the existing sales channel could not successfully mobilize around the new business.

In Intel’s case, the existing sales force was making a good living from the high-margin chips and would not put attention on Centrino. The corporate response was to add a ‘spiff’ to the Centrino commission, which quickly created an erosion of revenue from the established high-margin business, as salespeople shifted their efforts on to the new chip.

The resolution was to create a separate sales channel, based in Israel, and develop the revenue streams in parallel.

*“There was no compensation scheme, no management scheme, no scheme in which that one individual could actually bifurcate themselves and do both things. They had to separate them and let there be internal competition.”*

### *Encyclopedia Britannica: ‘the sales channel killed the company’*

Encyclopedia Britannica was cited as an instance where management was unwilling to challenge their dominant distribution channel; salespeople who were heavily commissioned for selling the book version and who opposed a CD version that attracted a much lower price. The delay in responding to market dynamics cost the company immeasurable value.

*“It was the sales channel that killed the company. There were people in the company who knew they had to go electronic and*

*“The way innovation and creativity happens is by recognizing the fact that you can not predict the future and you can not design the future. What you can do is prepare your organization and your capability to take advantage of emerging situations.”*

*their channel said: ‘No way, you’re not going electronic; I’m out of a job.’ The channel killed them.”*

Compaq and Xerox were cited as other examples of companies that had developed unique competitive products or distribution strategies that could not gain traction inside the existing organization structure and distribution channels.

## Timing and pace

### *Kodak: responding to dramatic, rapid erosion of market*

Kodak is an example of a company facing a dramatic and rapid erosion of its core market and which is now trying many new and innovative approaches to redevelop its business.

*“The transition from film to digital really got started and took place over two, three years – their business just went to zero. They had a really big wake-up call. It was very clear that you shouldn’t spend many of your resources trying to defend the film industry anymore. Or the film segment of your industry.”*

Kodak had one advantage in that they had very clear signals from the market.

### *Protecting existing revenue while building new streams*

Some industries, such as traditional educational publishing, are facing disruptive innovation but it is happening at a slower pace than the technology examples cited above. The organization needs to be nimble enough to go after emerging opportunities, without getting too far ahead of the market.

*“Leading, but not leading too quickly, in a market that isn’t necessarily there.”*

When the market dynamics are ambiguous, and the investment in the existing infrastructure is large, determining the scope, focus and pace of innovation can be very difficult. The challenge is even greater when there is an important revenue stream coming from the legacy business, and significant infrastructure investment.

Employees in these environments have an even greater need to have clear license to innovate, so that their ideas can be channeled into productive areas and so they do not feel blocked and frustrated by the need to continue supporting the existing revenue stream.

*"We stop too soon when we're solving problems. We come up with an answer ... rather than saying: 'We've got one, let's come up with more.'"*

## Multiple models of innovation

### *Wal-Mart: process disruptor, not product creator*

Many disruptive innovations have little to do with new products. Wal-Mart is a good example of a company that disrupted their market by launching a new way of doing business.

*"Wal-Mart didn't launch any new products, it was their business model that has put everybody around them in jeopardy."*

### *Cisco: buying back innovative offspring*

Cisco Systems, who many consider a highly innovative company, has acquired numerous companies launched by former Cisco employees. These employees were often considered performance problems when employed at Cisco.

*"These highly innovative individuals left, and then Cisco came back and bought their companies from them and have had a great record of doing that. ...They were all on the bubble-of-getting-fired list."*

The lesson from this is to keep an active alumni connection with people who have left the organization, so that they are not hostile to the idea of coming back in a new role.

### *Procter & Gamble: Crest Whitestrips*

The creation of Whitestrips put a low-cost alternative to dentist-based tooth-whitening systems into the hands of a huge market of consumers, by creating a new delivery method for the bleaching agent. Whitestrips were the product of collaboration between two parts of the business that were somewhat dormant: bleach and personal care. These parts were brought together to address a customer desire for whiter teeth.

## The Innovative Organization

### 'Innovation is not a value'

Companies that declare innovation as a corporate value are "missing the boat," according to one panelist.

*"I find in our organization, you get too caught up in the BAU - business-as-usual - and you don't have the flexibility to step out."*

*"There is a lot of talk from leadership about innovation and we want to do it and we want to be innovative and usually they put it in the values and on the plaque in the hall. ... Innovation is not a value. Innovation is like IT or accounting. It's a tool and something that you do."*

To become a more innovative organization, there must be openness to innovation in all areas and levels of the enterprise, from the board of directors to the front line.

### Leading at the right level: 'provide license to innovate'

Leaders need to articulate clear direction and provide license to innovate. That does not mean they should be involved too closely in the actual innovation process, which may be much more productive when handled by functional management areas.

*"There has to be that openness to innovation and a willingness to listen to the employee-driven [innovation]. ... I like the idea of getting cross-functional groups together, hearing employees talking at this kind of a kitchen-table setting...."*

Each level in the organization can make a contribution to innovation, but they do it in different ways.

*"In my opinion, the ... people who are closest to the ground often have the best ideas."*

Leading innovation from the most senior positions is more about creating the new landscape for the organization, communicating a view about the market and market dynamics and helping the organization build the capability to respond.

### Employees get it, but they wonder if executives get it

Employees are more aware than ever of the need to stay competitive to secure their future and they are looking at how confident they are in leadership to do that.

Hay Group research into employee engagement, done across a wide range of industries, is revealing that employee groups often have a very clear sense of the need to innovate for a secure future. What they may lack is confidence that the organization's leadership understands and is able to respond effectively to this need to move the organization forward.

*"Employees are saying 'we know this thing is broke and if we don't start doing things differently, we're not going to be*

*"Innovation is lurching from failure to failure, rather than gliding from success to success."*

*around and I'm not going to have a job.' How do you get that through to the leadership? It's not about new products and services in a lot of cases; it's about sources of revenues or how we operate, that we've got a bunch of administrative processes that are no good.'"*

This trend is an odd disconnect with other discussions where we hear leaders struggling to communicate the need for change and mobilize employees.

### *When the emperor has no clothes*

One panelist described a company where leadership was distracted by their own personal goals; employees lost faith that the company was moving in the right direction.

*"I left one of those companies. Where the employees are all sitting around with their feet burning going: 'We're going to go under. We are not going to be sustainable. We've been around 85 years, however, we're not changing, our market base is shrinking and our CEO is out getting a PhD. How is that helping us?'"*

When there is little confidence in leadership, employees are unlikely to take the personal risks involved in proposing innovative new approaches.

### **Industrial-era thinking**

Our organization design, strategy development and management process models continue to be dominated by industrial-era thinking, where there is time to move things up and down a hierarchy in a very methodical way.

The hierarchy itself is not the issue so much as the way we manage within it.

*"The reason we have hierarchy is because of increasing levels of complexity of work that goes on [and the] increasing cognitive horsepower that you have to bring to bear to do that work. People aren't CEOs by accident, or they shouldn't be. That doesn't mean that you don't harness the power of people in the organization. Big organizations have not been very good about stratifying work in complexity and harnessing the capability of the people deeper in the organization, which is very different from command and control."*

*“With employees today, it’s not about are they happy with their pay or their benefits, it’s about are our ideas valued around here and does the strategic leadership team know how to run this business five or 10 years from now?”*

The net result in many organizations is that innovative ideas do not survive the trip to the top. Almost as important, the cycle time of this kind of process is too slow to provide a competitive advantage.

Industrial-era approaches – the ‘command and control’ style is also fundamentally conservative, in the sense of conserving resources, existing procedures and existing revenue streams. But to stay innovative, and succeed in flat markets, there is a need for creative destruction.

## Emergent strategy

Henry Mintzberg, an innovative management theorist at Montreal’s McGill University, has said that the notion of being able to design and plan the future – the classic view of strategy – is fundamentally wrong. He believes that strategy is an emergent phenomenon, the sum of many decisions made across the organization.

The enormous number of variables that can affect opportunities and outcomes also mean that control-oriented thinking about strategy is likely illusory.

A practical approach to addressing this situation is to focus less on the ‘how’ of innovation and more on the ‘what’ of innovation.

*“An example of what ... [is] that we believe in 15 or 20 years, there’s going to be a world that’s something like this, we can’t give you the specifics but we believe it’s going to be there.... The how is – as you move along, as the train moves along that continuum, you start to get a clearer view, but what you’ve done is prepared your organization to think for that eventuality so it’s the intended and the emergent that comes together.”*

The difficulty of dealing with tremendous uncertainty and weak signals may make focusing on something more manageable – such as the ‘how’ of process – more appealing. The result is that leaders may focus their efforts on work that is more properly handled farther down the organization.

*“I spend a lot of time with senior executive groups and the conversations they have at that level are the wrong conversations.”*

## Bottom-up and top-down

What people need from top leadership is a view of the market dynamics, a view of the changing landscape and a sense of priority and

*"We talk about innovation constantly, but we don't make time. That's just something, right off the bat, that we have to fit in."*

pace. Then they need permission to act on this understanding within a defined scope to thereby create emergent, innovative operational strategy. Panelists attributed much of their success in innovation to achieving this clear articulation from leaders.

*"One of the key components of our success to date ... is really helping the employee to understand what their new role looks like, what their new language is, what the semantics are. How are we working together today that is different from what it looked like yesterday. That's been the foundation for beginning the change."*

When executives can provide this context and vision, then engage the organization from top to bottom, this is a powerful force for forward motion.

*"In our organization it started with leadership, with the senior person involved. Without that vision, it probably wouldn't have happened. ... Then it became more of a consultative model, engaging other people in the middle-manager layer ... in terms of defining the problem and looking at what the solutions are. [We're]reaching out into different organizations and bringing those people in to look at our business now. 'How do we rip off IBM's ideas in the sense of becoming a service provider and how do we internalize that into our own business model?'"*

One panelist described the successful dynamic as being simultaneously bottom-up and top-down, where the leader stimulates thinking and asks a lot of questions and the employees push ideas up as well.

## Managing Uncertainty

The way in which an organization relates to uncertainty and manages uncertainty can help or hinder the innovation process.

When the price of failing is too high, on an individual level, it will be difficult for the organization to innovate because no one will want to take the personal risks. The price may not actually be job loss – it may be loss of career momentum or even loss of standing and status.

One panelist described a situation where a project was far off its' goals and the chief goal of team members became finding a way to get off the project team before the failure became public and blame was allocated.

*“What that [event] did was, it started to challenge the ideas of who leads. ...It’s OK if you’re a more junior person to step up to the table and it’s entirely OK if you’re a senior person to step back and let somebody else lead. It’s really about taking those opportunities and recognizing the thought patterns that exist within the organization that need to be challenged. And finding them within the organization when it is working and saying ‘see, it is working.’”*

## Observe-Orient-Decide-Act

The military discipline of Observe-Orient-Decide-Act (OODA) is a practical approach to managing in an environment of uncertainty. It was originally created to help aviators succeed in dogfights, but was soon expanded into many forms of military leadership. It has been ported into management theory as well. Toyota and Nokia are both reputed practitioners of this style of decision-making.

Observation is the gathering of information from all sources. Orientation is the creation and modification of a mental model about the situation at hand. Decision and action are to follow as rapidly as possible. A faster total cycle time can itself create competitive advantage.

By using the OODA model, individuals at all levels of an organization can avoid jumping to a conclusion when things go wrong. They can also avoid deferring action while trying to get to the perfect solution. It is preferable to act quickly, and constantly refine the orientation to external conditions, enabling further action. Many leading innovative technology companies have former military officers among their senior executive, perhaps in part because of this core ability to act on evidence, and continually learn from after-action analysis.

## Technology and regulation

While technology changes have enabled a much more customer-responsive environment in many industries, there is still a significant challenge in bringing legacy systems together to support customer desires for integration and seamless delivery across channels.

The regulatory environment is not always supportive of these changes, such as in telecommunications, where controls over competition have created difficulties in providing integrated services to customers.

*“You’ll get a customer of Bell who’ll say, ‘well I’m a wireless customer, why can’t you just look at my local phone number, here it is.’ Well, we’re not actually allowed to do that; so you have systems that have grown up and are completely separate organizations.”*

Innovative thinking is needed to work with older systems, designed with limited flexibility, to meet unanticipated expectations.

Despite limited evidence that conditions will ever be stable, we often design systems and organizations as if they will be.

*"I think we're really good at having technical conversations but we're generally very poor about having co-ordination of action and leadership and management conversations that facilitate innovation. There's a rigorous way of doing that, just like technical conversations, and that's largely misunderstood."*

## Tactics: Focus on Soft, not Hard

A great deal of public discourse about innovation is about the so-called 'hard' issues of developing new technologies and new products. Our panelists largely see this as the wrong focus.

*"Too much time [is spent] on the hard, when we should be talking about the soft."*

The soft relates to people and processes, not so much to invention. 3M was cited as an instance of a company with a superior R&D function that is not a market-leading innovator.

### 1. Make new ideas the first item on the agenda

One panelist suggested putting "new ideas" at the top of every agenda, instead of the bottom, as a way to get better focus and to give people permission to bring ideas forward.

*"Instead of asking who has a new idea, go around the table and ask what idea they have had. ...If you know your boss is going to ask you what idea you have had this week, I can guarantee [you're] going to come up with an idea or two."*

Managers caution that these changes do not take hold overnight, and persistence over six to 12 months will be needed to see real change.

### 2. Bring customers into the process

Understanding the challenges, needs and problems of customers can provide the impetus for innovative thinking.

*"I'm trying to get our workforce to start asking people, what are your challenges? ... What's something that happened to you that pleased you or didn't please you? So that they gather intelligence and information in a way to inform an innovation process and idea generation which is very different from their [current] thinking."*

### 3. Prototype, test and learn

Bringing customers into a prototyping process can be very useful, as an organization "gropes towards" the right approach to a given customer need.

*“Leaders very often don’t understand what it means to be innovative and how innovation really happens. They want it, but they want it like they want nice weather... They’re not ready to do what it takes.”*

One of the strengths of the prototyping approach is that it has the concept of failure built in, and takes away the need to get things right the first time.

#### 4. Look at your processes for planning, budgeting and resource allocation

Organizations that want to be more innovative need to balance the need for consistent internal processes with the need for flexibility. Budget is a good example of a common barrier, where expenses are so tightly managed, that there is no room for experimentation.

#### 5. Put innovation into performance goals and priorities

Annual performance goals tend to be dominated by final outcomes and defined measures such as key financial ratios. To encourage innovative thinking, it’s important to bring this expectation explicitly into performance goals and metrics.

*“They don’t give people permission to experiment because they’re so focused on efficiency and next quarterly results and so on and cost cutting and improving ROI that the latitude to experiment and try things out is non-existent.”*

Since innovation often has unclear payoff, the innovation goal can not be an end result, it must speak to developing new processes and approaches towards an outcome.

*“They ask people when they have a germ of an idea to give the profit and loss over 15 years. The whole stage is actually built to kill ideas.”*

For others, if innovation is not tied to “something tangible such as financial results” there is a lack of the urgency needed to mobilize real effort.

Executives on our panels are struggling to find the right metrics that will encourage innovation and put the focus on innovation while not creating a new barrier to overcome.

#### 6. Reward collaboration

Cross-functional collaboration is usually critical to innovation. Individuals may *want* to work collaboratively, but find no enabling systems and sometimes actual barriers to collaboration.

*"In order to maximize efficiency and innovation in one department you created a lot of tension in other departments. ... The benefit of the process, which is really an unintended benefit of innovation, was that they started saving between a half day and a whole day per week of work, by defining the problem before finding solutions."*

Many organizations reward only individual effort, not the outcome of idea sharing.

*"Within big organizations people are reluctant to collaborate because they're focusing on individual outcomes as opposed to joint outcomes. That's the way people are rewarded in organizations and to actually be open about your ideas, your thinking and your inventions is not part of the culture."*

## 7. Give permission to yourself and your staff

Leaders need to clearly articulate where innovation is desired and where it isn't – and then give people permission to take some risks. Our panelists all say that the initial steps often need to be small; to develop more comfort in doing things differently and to find small successes to build on.

*"We went in with a great deal of trepidation because it was not the norm, and we were surprised and greatly heartened. [Innovation is about] taking risks, trying some new small process that you may not have used before and learning from it. We had to give ourselves permission not only to be creative, but to try something new."*

## 8. Give the board permission to embrace uncertainty

Boards may have a decision process that is very outcome focused, asking questions about how long to ROI on a project and time to market – the very things that can kill innovation throughout the organization.

*"We are actually working with our board and having what we're calling generative discussions where they have conversations like this [the roundtable]. And encourage the CEO to incorporate this into the corporate structure. ... They still are a little uncomfortable but they are having conversations similar to this, where they don't know where the conversations are going to go."*

## 9. Bring everyone into the conversation

Changing the way strategy is developed can help an organization find new markets. For one company represented in this discussion, a think-tank exercise uncovered a significant new market opportunity to leverage existing core capabilities.

*“Fail often and fail early and admit failure.”*

*“We’re trying to create a culture of innovation. We’ve been around for 40 years and have deeply entrenched patterns. We’re starting, slowly, to look at things like the way we develop strategy – typically done at the top of the house. This year, we tried an innovation exercise called the think-tank exercise. We assembled people from all levels of the organization and asked them ... where we could go in terms of getting new customers.”*

The net result: an organization that specialized in training in financial services is now successfully expanding into the funeral industry.

## 10. Support employees’ changing career paths

To respond to the desires of clients for more stability in their account management relationships, RBC Financial Group is trying to find ways to change traditional career-path expectations. This means keeping people in their role longer than in the past, and at the same time provide employees opportunities for growth in their role.

*“We’ve done a lot in the last year to help employees understand the change and that it’s not the bank that’s dictating that we must change. We’re helping employees to understand that it’s the clients that are driving our requirement to change. This is what they’re telling us, so if we want to be competitive in the marketplace we need to listen to what our clients are saying.”*

Roles as well as traditional career paths are changing. Part of RBC’s response to this dynamic is to provide employees with more online career-management tools, to help individuals manage their own career paths successfully in an environment where roles are not stable over long periods.

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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:

Why Most Things Fail: Evolution, Extinction and Economics, by Paul Ormerod, Faber & Faber, 2005.

[“P&G Has Something to Smile About”](#), by Ron Lieber, Fast Company, July 2001. Discusses the launch of Crest Whitestrips

[“The Strategy of the Fighter Pilot”](#), by Keith H. Hammonds, Fast Company, May 2002. Discusses the OODA loop, and Col. John Boyd, its creator.