How to Embed Innovation into Your Organizational Culture

By Cassandra Frangos, Ed.D, Director, Cisco Center for Collaborative Leadership

Recent investigations about innovation reveal that companies that innovate successfully and steadily do so by managing innovation holistically in a systematic, integrated fashion across the entire enterprise. They incorporate it into every activity that touches customers, partners, and suppliers. Cassandra Frangos, former human capital practice leader at Palladium Group, recently researched the practices that top innovating companies embed throughout their organizations. Here, she shares some of the common practices through which such organizations move innovation from its often segregated position as a classic "internal process" to one that permeates multiple performance dimensions—and that occurs on an ongoing basis.

The business literature abounds with information on what innovation is and why it's important, but much less research has been dedicated to how organizations can sustain innovation. What practices do the most consistently successful innovators use to turn brilliant ideas into measurable business value? Although my focus is on new product ideas, I also include in the definition of innovation new ways of delivering existing products, new approaches to resolving customer relationship problems, and processes for training employees more efficiently and effectively—any idea, that is, that can add business value. Successful innovators value promising new ideas at all levels of the organization, viewing them as part of making strategy everyone's job.

Through my field research, I discovered that successful innovators apply specific practices related to culture, talent management, and organizational structure—areas that lie within the foundational learning and growth perspective of the Balanced Scorecard and link to the customer and process perspectives. These practices transcend functional areas. (See *Figure 1,* opposite.) In addition, successful innovators manage these specific practices across the three basic phases of the innovation process: phase 1 (generating ideas), phase 2 (moving ideas to reality through sponsorship or funding), and phase 3 (adopting ideas by commercializing them or enabling internal or external customers to apply them). (See *Figure 2,* opposite.)

Although my research uncovered some fascinating approaches to generating ideas (including novel idea-generating exercises and flexible reporting hierarchies), my focus here is on the areas that usually get less attention—and where organizations get tripped up. Phase 2 (moving ideas to reality, the subject of this article) and phase 3 (adopting ideas, the subject of a subsequent article) are at the locus of strategy execution—where strategy and operations are linked. Here, let's consider the culture, talent management, and structural practices that successful innovators apply in moving ideas to reality.

Culture

Successful innovators shared three cultural characteristics—characteristics easily translated into one or more strategic objectives in the BSC—that encourage risk taking and reward people for moving good ideas toward reality.

Conversely, risk-averse organizations tend to discourage innovation. However, the risk that people tend to fear most is not financial loss or wasted time; rather, it is damage to their pride, status, or prestige if they should fail.

So at an especially tough time—as innovation budgets are constrained by economic uncertainty, intense competition narrows the margin of error, and impatient shareholders watch executives closely—how can organizations encourage their people to take risks?

Objective: Celebrate mistakes. At DuPont, a manager recalled how a group in his department had tried an innovative approach to a problem that had failed miserably once it was put into action. Rather than ignore the failure, he held a celebration to acknowledge the failure as "a good try." At Hershey Foods, a manager instituted the "Exalted Order of the Extended Neck" for employees who exhibited entrepreneurship. At Johnson & Johnson, they say, "Failure is our most important product." To make this approach work, managers must be clear about what constitutes a reasonable mistake. A typical guideline: "Fail fast and cheap."

In companies that measure everything, how do you assuage people (or teams) who fear they may be racking up more mistakes than successes—even if they've produced more successes than risk-averse peers? By tracking the number of failed attempts it takes to reach a success, companies can create a measure that will motivate rapid prototyping. This practice helps establish a certain number of failures that become acceptable for learning purposes.

Objective: Model risk tolerance. When business leaders model a tolerance for risk, others become more willing to take the chances needed to realize promising ideas. To model risk tolerance, leaders must first closely examine their own attitudes toward risk taking and failure and then avoid any behaviors that discourage risk taking (such as punishing people when their ideas don't work out).

Said one executive I interviewed, "If we have 100 percent success, then we're not taking enough risks."

So what percentage of failure is acceptable? Obviously, that percentage (a range, really) will vary from organization to organization, based on the industry, the type of project, and other factors. Organizations that track innovation initiatives within their overall initiative portfolio can take advantage of tools to track costs against budget. Sophisticated analytics may also help provide historical risk–return payoff data that can help decision makers set thresholds, which then can be incorporated into the organization's scorecard.

Objective: Provide the right rewards. To encourage risk taking and innovation, you must reward it. Rewards need not be financial. Indeed, research shows that innovators view recognition from management, colleagues, and others as being more powerful than financial rewards. How creative a person feels at work is another strong driver of innovation. A study of programmers found that a large majority of them reported frequently reaching "flow"—that state of exhilaration characterized by a feeling of control and purpose in which people are able to perform at their peak. Flow can turn even the most unpleasant tasks into enjoyable, rewarding challenges.[1]

Moving an idea toward reality entails hard work and requires people to stretch their limits and persevere. People need incentives to reach beyond their formal job responsibilities and to combine organizational resources in new ways. Organizations can encourage this stretching by designing a reward system that emphasizes investment in people and projects rather than payments for past services. This incentive approach prompts people to move into challenging jobs, gives them budgets to tackle projects, and rewards them afterward with opportunities to tackle even more ambitious projects in the future.

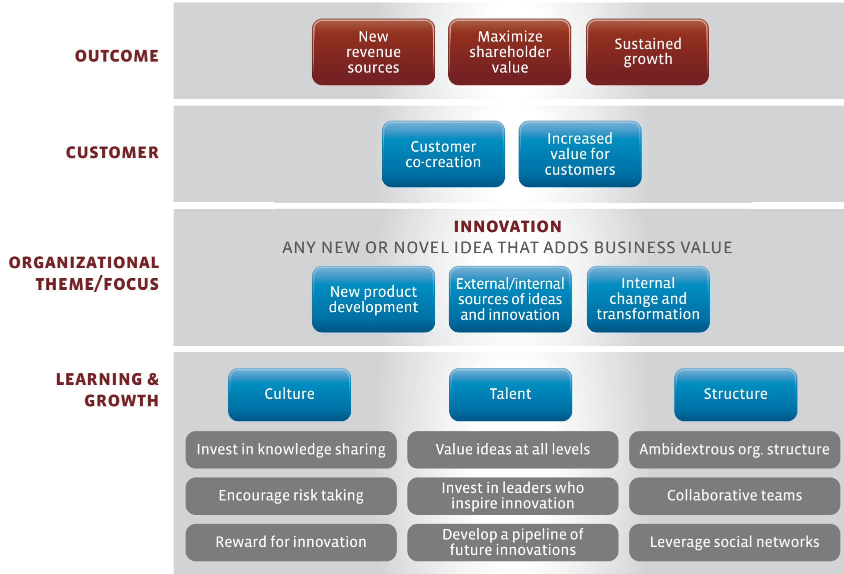

FIGURE 1: *AN INNOVATION STRATEGY MAP (WITH SAMPLE OBJECTIVES)*

Objectives in the learning and growth perspective clearly and unambiguously support the innovation strategy.

	PHASE 1: Idea Generation	PHASE 2: Moving from Idea to Reality	PHASE 3: Adoption of an Idea
CULTURE	Idea generation valued at all levels	Risk taking and reward	Knowledge sharing
TALENT	Preparing talent to be creative and generate ideas	Qualities of innovators and leadership talent	Preparing and grooming future talent
STRUCTURE	Structure to generate ideas and devote time to idea generation	Structuring teams	Organization structure

FIGURE 2: *CULTURE, TALENT, AND STRUCTURE AT EACH PHASE IN THE INNOVATION PROCESS*

Here, we focus on specific practices across these three areas in Phase 2.

Effective rewards can take numerous forms, including public recognition, exposure to influential executives, and opportunities to undertake special projects a person feels passionate about. At one firm I studied, an employee who drove the implementation of an especially successful innovation was invited to present his idea to the board of directors. That opportunity gave him the recognition that led to a new career opportunity in the organization. The CEO even called him personally to offer to unblock any bureaucratic obstacles he might later run into.

Talent Management Practices

Once ideas are generated, a company's talent management practices affect whether the ideas win the needed sponsorship and funding to be transformed into potential new products, services, or processes. Consider these talent management objectives. And consider making "innovators"—the idea generators as well as the leaders who manage

1 D. Pink, Drive: The Surprising Truth About What Motivates Us *(Riverhead Books, 2009).*

them—a strategic job family that your organization could develop as part of its scorecard innovation theme.[2]

Objective: Value creativity by putting creative people in positions of authority. Uncreative people tend to kill good ideas, encourage bad ones, and—if they do not see something they like—demand multiple rounds of "improvements." Because leaders help set the tone for innovation, they need to be innovative themselves or at least know how to draw on the company's talent in the right ways to encourage innovation.

Consider the example of the vice president of R&D at Procter & Gamble's home care division. When a team was working on an incremental product-line extension, he received updates at predetermined milestones. But when P&G was developing novel products, such as the original Swiffer or the Mr. Clean Magic Eraser, he and the business-unit president would go into the company's labs to review early prototypes and participate in daylong brainstorming sessions. Such deep engagement enabled him to get a better sense of the new products and share insights with the team. As he put it, "We are there with them to help and also to learn about the business before we have to invest in it."[3]

Objective: Ensure that leaders have the right characteristics. Leaders who encourage innovation have distinctive characteristics. Some companies define their ideal innovation champions with a list of traits—for example, "internally influential and willing to use her political capital," "visionary about new products and innovation," "willing to do things differently," "skilled in understanding business and technical issues."

Cisco uses a nine-box matrix to evaluate potential leaders' effectiveness as innovation supporters. Individuals who score in box 6 (high-performing pro today), box 8 (develop to excel; next generation), or box 9 (leading-edge; next generation) are eligible to take part in the company's action learning forums, where participants explore ways to transform good ideas into new products, services, or processes.

Objective: Recruit innovative talent. More companies today are using psychometric tests to identify creativity during the personnel selection process, such as the Innovation Potential Indicator (which measures an individual's innovation behaviors) and the Team Selection Inventory (which measures an individual's preferred teamwork climate for innovation).

Some organizations actively recruit creative people who are difficult to work with—nonconformists who challenge authority and who question the status quo. These qualities, along with a willingness to ask hard questions, can help advance the process of idea generation to idea implementation. Other organizations look for competencies and personality traits that foster teamwork when they're recruiting new hires. Gucci seeks job candidates who are comfortable with ambiguity, accept not having control over the final product, and function well in an environment without precise job descriptions.[4]

Objective: Understand what makes an effective innovator. As with leaders, effective innovators have defining characteristics. Managers who take the time to identify them can then deploy direct reports who possess them. As one expert explained, innovators have very strong cognitive abilities, including excellent analytic skills; they zero in on the most important points and waste no time on peripheral issues; they have the ability to think strategically even in highly ambiguous situations; and they know how to extract information from specific areas of an organization and then garner organizational support for potential projects.

David Small, corporate vice president of the Leadership Institute at McDonald's, asserts that innovators know that the past is not prologue: "Just because this has worked in the past doesn't mean it will work going forward."[5] They can frame and reframe challenges from multiple vantage points and identify which solutions are most likely to be embraced by the influential people in the organization. They must also be able to walk into a conference room full of diverse constituents—including colleagues, customers, subordinates, bosses, vendors, and partners—and quickly discern each person's underlying motivation. This is the art of bringing a diverse group onto the same page—and it's essential to transforming a promising idea into a companywide innovation.

Organizational Structure

In phase 2 of the innovation process—moving from idea to reality—teams are the most relevant type of organizational structure, according to research. But working in a team isn't always easy, especially given the independent-mindedness of creative people. According to my interviewees, the most successful teams blend inside and outside perspectives, experience creative tensions, enjoy good leadership, maintain their focus on the client (whether external or internal), and enjoy open dialogue. Team members have good listening and technical skills, are willing to work hard, know how to have fun, share a passion for the work, and are willing to trust and support one another. Consider adopting the following objectives to build an effective innovation team.

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2 *R .S. Kaplan and D. P. Norton, "Strategic Job Families,"* BSR *November–December 2003 (Reprint #0311A).*

3 *S. Anthony, M. W. Johnson, J. V. Sinfield, and E. J. Altman, "Driving Growth Through Innovation,"* Financial Executive*, October 2008.*

4 *D. K. Rigby, K. Gruver, and J. Allen, "Innovation in Turbulent Times,"* Harvard Business Review*, June 2009.*

5 *J. Cohn, J. Katzenbach, and G. Vlak, "Finding and Grooming Breakthrough Innovators,"* Harvard Business Review*, December 2008.*

Objective: Foster connections with external stakeholders. By consulting with its stakeholders (whether outside the team or outside the company), a team will be sure to have the best available information on matters such as the resources available for idea development; will be able to build relationships with those who have the greatest investment in a positive outcome; will be able to see the project with fresh eyes; and will ensure that the outcome meets stakeholders' needs. As the project progresses, positive feedback from management and the stakeholders will energize the team and foster unity.

Objective: Select members who have strong social networks. Pick members not only for what they know, but also for whom they know—and how their social networks might aid the team. At each step, the right team members need to reach out and find needed information, develop proper contacts and support, and coordinate the tasks that will accomplish the purpose at hand—all according to the agreed-upon schedule.[6] Having strong social networks makes it easier to accomplish these goals.

Objective: Build a diverse team. When you put teams together, strive for diverse backgrounds and ways of thinking. The design innovation firm Ideo ensures that "eight crazy characters" are represented on each team: a Visionary, Troubleshooter, Iconoclast, Pulse Taker, Craftsman, Technologist, Entrepreneur, and "Cross-dresser" (no, not a transvestite, but someone who, for example, studied engineering but fell in love with design).

Objective: Create a team charter. Set the stage for success by creating a charter that spells out the team's mission, objectives, and degrees of freedom. Without a charter, the team may assume that it can do things it cannot do, presenting risks that the company is not willing to consider. Even worse, members may assume that they cannot do things they can do. Teams that fall into this trap end up creating close-to-the-core, lackluster strategies. They may become paralyzed or waste time analyzing unimportant issues.

Objective: Encourage collaboration. To encourage team members to collaborate with one another and with those outside the team whose support is essential, companies can spread leadership and decision making widely. For example, one firm I studied created working groups that involve 500 executives. This move reflects a new philosophy about how business can best work in a networked world. Explained one executive:

> Today, our company is structured such that a network of councils and boards empowered to launch new businesses, an evolving set of Web 2.0 tools, and a new financial incentive system all encourage executives to work together as never before. Business-unit leaders who formerly competed with one another for power and resources now share responsibility for one another's success. What used to be "me" is now "we."

The goal of this structure is to get more products to market faster. He continued, "The boards and councils have been able to innovate with tremendous speed. Fifteen minutes and one week to get a [business] plan that used to take six months!"[7]

Finally, consider the value of theme teams in innovation. Increasingly, organizations are establishing such cross-functional teams to advance strategic themes—components of the overarching strategy. Such teams draw from across business units, departments, and functional areas to advance strategy—frequently by identifying and monitoring strategic initiatives. Innovation theme teams can be created at varying levels and for various purposes, not merely to cultivate innovation but also to move ideas into action.

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By recognizing that innovation goes beyond idea generation—and needs an infrastructure for moving ideas toward reality and adopting them for the long haul—and by applying powerful practices related to organizational culture, talent management, and structure, organizations boost their odds of success significantly. These three types of practices pack the biggest punch when they're mutually reinforcing. And they also gain power when they're organized holistically in the broader strategy management framework. With a strategic theme of innovation that permeates the strategy map, with learning and growth objectives that define people and processes, and with initiative management tools and techniques to help track progress, leaders and managers can make timely, clear-headed decisions about when to keep going—or when to cut their losses and celebrate failure. ■

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To learn more

Frangos's research involved in-depth interviews with innovation leaders, business leaders, chief learning or talent officers, and others at high-tech companies and an innovation design firm. Her white paper, "From Brilliant Idea to Measurable Business Value: How to Sustain Innovation in Your Organization," also extensively cites leading research. To obtain a copy, please email her at cfrangos@cisco.com.

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6 *D. Ancona and H. Bresman,* X-teams: How to Build Teams That Lead, Innovate, and Succeed *(Harvard Business School Publishing, 2007).*

7 *E. McGirt, "How Cisco's CEO John Chambers Is Turning the Tech Giant Socialist,"* Fast Company*, December 1, 2008.*