Innovations

Innovation and leadership

Executives fail to foster innovation

F ew executives these days would deny that innovation is important. In fact, within survey after survey, and at many conferences, most senior executives now stress that innovation is one of their top priorities, and an essential driver of growth. Yet, despite innovation becoming a major focus, most companies are still failing to create the right environment for an innovate business; and it appears that one of the biggest factors in this failure is the senior management themselves.

The message from a number of recent surveys is that irrespective of all the talk this issue is just not getting the attention from senior executives that it needs. It appears that innovation is still not being well managed or internally encouraged; the approach is still often informal; prevailing cultures have not changed and most managers still do not demonstrate through their behavior that innovation is essential to their business success. Essentially, there is a wide gap between the aspirations of executives to innovate and their ability to execute.

Leader's critical role

The "Global leadership imperative: building an innovation engine" study by Oliver Wyman – Delta Organization and Leadership in cooperation with the Economist Intelligence Unit surveyed 293 senior executives situated in Asia, Europe, and North America, with companies engaged in 17 different industrial sectors (www.oliverwyman.com). McKinsey's global report on "how companies approach innovation" – published in *The McKinsey Quarterly* – was based on an opinion survey of 722 senior vice-presidents and 736 lower-level executives from around the world and representing a broad range of industries (www.mckinseyquarterly.com). An executive summary of the APQC study, "Successfully embedding innovation: strategies and tactics," and full report are available at www. apqc.org/innoreport

For instance according a recent study, conducted by Oliver Wyman – Delta Organization and Leadership, in cooperation with the Economist Intelligence Unit, 75 percent of global executives believe an innovation strategy is critical to their company's success. Yet, fewer than half are creating an organizational climate that fosters innovative thinking and leads to innovation success. In fact, approximately 65 percent still do not have an innovation strategy in place.

Moreover, over half of respondents to the study said leaders in their companies fail to establish a clear purpose and direction for their innovation efforts or create an open and supportive environment. Furthermore, executives believe they are failing in the following areas: maintaining discipline in the innovation process (82 percent), recognizing innovation (73 percent), taking an outside-in perspective (71 percent), and facilitating idea generation (68 percent).

In general, the respondents to the study, which is the second report in the Global Leadership Imperative series ("Building an innovation engine") are aware that it is essential to establish business processes that translate new ideas into action. However, they state that their companies, for the most part, are not structured to support generation.and execution of new ideas. Whereas, the study also notes that companies with well-established innovation strategies are less likely to say that their bureaucracy slows down decision-making and hinders innovation, than their counterparts, according to the study. In addition the 35 percent of respondents with well-established innovation strategies were three times as likely to say that their companies were skilled at both creativity/idea generation and at transforming new concepts into commercial processes or products.

It is clear that senior leadership plays a critical role in fostering the right climate for innovation. A company's culture, values and organizational structure all contribute to the DNA that supports innovative thinking. Yet, the results of this study indicate that without senior leaders who establish a culture of innovation from the top and an organizational structure that supports innovation, companies will falter and look elsewhere for growth.

Perceptions and reality

Similarly, the findings reported by McKinsey in its global report on "How companies approach innovation" (and published in *The McKinsey Quarterly*) also show that the level of priority assigned to innovation by senior management is far from being reflected in the way companies manage and govern innovation. For instance, the study, which questioned both senior vice-presidents and lower-level executives, confirms the idea that innovation is often not deployed as a top-down tactic.

As the report states, "less than a quarter of respondents indicate that innovation budgets or targets are decided at the top." It also found that "many top managers lack a structured approach to making innovation decisions," and that "most organizations seem to lack consistent central governance that could track the work of the business units on innovation."

More specifically the study reports that "only 34 percent of top managers say innovation is part of their leadership team's regular agenda – and only 22 percent of other executives perceive that to be so. Further, only 27 percent of top managers say that their processes for budgeting, strategy, and growth, including innovation, are fully integrated into their annual planning process, although nearly half say there are informal links."

McKinsey also found that while top managers and other executives agree that the most important drivers of innovation are having the right people and the right culture to enable innovation, they have different perceptions as to the challenge these issues present.

According to the report, "some 40 per cent of top managers say that they do not have enough of the right kind of employees. Among top managers who do say enough people are available, however, nearly half say the right employees are in place, motivated, and protected by senior leadership, and only 22 per cent say the organisation's culture inhibits them from making progress. Other executives take a different view. Only 31 per cent say the problem is that they don't have enough of the right kind of people. Among those who say the organization does have the right employees, almost one-third say the company's culture inhibits progress. Only a third say innovators are protected by senior leaders."

Interestingly the McKinsey study also notes that where executives do agree, is on a few steps that will help improve innovation performance, starting with a different approach by corporate leaders. "Respondents say ensuring that innovation is a core part of the leadership agenda is central to improving innovation."

Innovation integration principles

The importance of leadership and top level drive for improving innovation performance is a theme also picked up in the APQC study, "Successfully embedding innovation: strategies and tactics."

With thought leadership by IBM, this report examines a number of best-practice organizations – including Air Products and Chemicals Inc.; the cardiovascular division of Boston Scientific; Computer Sciences Corporation; Ethicon Endo-Surgery; and Hewlett-Packard's imaging and printing group. It reports on how these companies create a strategy to embed innovation, define roles and structures to support innovation engagement, understand the cultural and technical enablers of innovation, design ongoing communication and change management tactics, and evaluate key innovation measures.

Overall, the study found 15 key principles from studying these best practice partners:

1. Overarching cultural frameworks and strategic guideposts help establish the foundation for an innovative culture.

2. Clearly articulated strategies and road maps can provide transparency and direction for innovation.

3. Establishing innovation specialty groups – in addition to centralized ownership – helps to broaden engagement.

4. Internal events and competitions provide recognition for innovative thinking and behavior.

5. Organizations are deliberate in how they allocate resources depending on the amount of risk involved.

6. Collaborating through internal and external alliances can strengthen innovation and idea generation.

7. To strengthen the innovative culture, organizations are hiring employees who meet criteria outside of functional capabilities.

8. A critical ingredient to get innovation to "stick" is visible participation and active involvement from leadership at all levels.

9. Designating physical and/or virtual spaces dedicated to innovation can encourage creative thinking.

10. Encouraging risk taking is essential for innovation to thrive.

11. Encouraging employees to collaborate with those outside their specific peer groups can facilitate idea generation and problem solving.

12. Proper selection of software tools can facilitate the innovation process.

13. Employing a diversity of communication vehicles is necessary for a relentless focus on innovation.

14. Knowledge and change management techniques can facilitate the embedding of innovation.

15. Offering both formal and informal training courses improves internal competencies related to innovation.

In summarizing the study, Dr Kevin Desouza, assistant professor at the University of Washington, who served as the study's subject matter expert, further highlighted three key aspects to successfully embedding innovation.

First, these best-practice partners understand the criticality of innovation and do not just give it lip service. These organizations have embedded innovation into their mission statements, rewards and performance systems, resource allocation programs, and even into how they engage with their customers and business partners.

Second, these organizations have transparent processes for managing innovation; roles and responsibilities are clear and, consequently, accountability is explicit. Whereas, some best practice partners maintain a decentralized approach to innovation, others have chosen to centralize it. Regardless of the strategy adopted, the entities responsible for innovation are given the necessary resources to achieve their objectives.

Third, best practice organizations use a multitude of communication tools and vehicle to get the word out about innovation. They communicate with all their stakeholders, and they do so often. They also ensure that ideas can be conveyed and exchanged effectively: feedback channels to the idea creators are well defined. Rewards and recognition for innovation is publicized so that they act as positive reinforcement and incentives for future efforts.