Innovate on the Run:
The Competing Demands of Modern Leadership

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Contents

Executive Summary

Innovation is at the heart of discussions about competitiveness and sustainable success. The business press devotes entire issues to the topic, sold-out conferences present keynote speakers with new formulas and insights, and scholars and practitioners continue to churn out books and case studies.

Despite the hype and continuous dissection, innovation remains a mystery to most organizations. What is it? Who owns it? How can the organization reap its rewards? **How can individual leaders nurture it?**

This report focuses primarily on the last question. As organizations rely on leaders at all levels to execute strategy and manage the day-to-day business, they also task them with innovation – sometimes as a core part of their job, most often in addition to their many other duties.

To explore the challenges and best practices for **leading innovation,** we reviewed multiple BlessingWhite workplace studies, analyzed leadership assessment data from a wide range of clients, spoke with experts, and conducted interviews with line and HR leaders from a diverse mix of industries.

Key Findings

Leaders are aware of the debate about what type of innovation fuels market advantage in their industry, but at the end of the day, they all face similar challenges – unleashing creativity, managing risk, and overcoming reluctance to change – whether their teams are focused on incremental improvements or pure invention.

Leaders lack proficiency. There are troubling gaps between the rhetoric in the executive suite around innovation driving business success and the role leaders actually play in making it happen. Data from very different sources all point to the same conclusion: *At least half of all leaders struggle to effectively drive innovation and encourage risk-taking.*

Culture can be innovation's worst enemy. Even the most skilled leaders and the most engaged, talented employees are stymied by organizational cultures that reward short-term results, punish failure, impede collaboration, and reject change.

Competing priorities undermine good intentions. Those leaders tasked with 'being innovative' while delivering results in the short-term are hard-pressed to focus their team's time and attention on new ideas. Even those responsible for significant product innovation face impatient CFOs obsessed with quarterly earnings.

Success doesn't result from new skills. Many of the same leadership attributes and behaviors that are crucial to building productivity and workforce engagement are essential to fueling innovation. Successful leaders are disciplined in applying their leadership skills to achieve what at first may appear to be contradictory goals.

Key Recommendations

To drive innovation, organizations need to make culture a top priority. Senior executives and HR professionals need to purposefully shape and sustain a culture that supports creativity and risk-taking. Once in place, they need to provide structure, tools, and training to keep their 'innovation engines' running smoothly.

To encourage innovative thinking in all corners of the workplace, individual leaders need to:

- Align their teams.
- Inspire action.
- Coach the right behaviors.
- Trust and build trust.
- Swim, in some cases, against the cultural tide.

This report is provided as part of BlessingWhite Intelligence, a series of reports on business and workplace issues. We invite you to read on to learn more about leading innovation. You can explore other topics by visiting www.blessingwhite.com/research

Findings

The debate about innovation is academic.

'Experts' hotly contest the characteristics and virtues of incremental improvements and breakthrough innovation: Does one rule out the other? Can a series of small changes accumulate to provide big gains? Which kind of innovation really fuels business performance and sustainability?

The leaders we interviewed often described innovation in terms associated with George S. Day at Wharton's Mack Center for Technological Innovation:

- 'Big I' for breakthrough inventions
- 'Small i' for incremental improvements.[1]

Their perspectives varied based on their function and industry as well as the maturity of their organization. Leaders responsible for R&D and long-term strategy emphasized market breakthroughs. Many other leaders stressed the importance of continuous improvements. Vincent Provenza, Vice President and Regional Manager based in Louisiana for global engineering firm URS, explained this point of view, "[When we're building a bridge,] we can't start from zero. Our innovation is thinking of ways to do things more efficiently."

Overall, leaders appear a lot less concerned about what it's called than how they can achieve it. **Their personal leadership challenges cut across all types of innovation.**

Organizations want large and small innovation.

Many organizations try to drive the 'big ideas' while at the same time encouraging creative approaches in everyday business activities. Dee Bliss, Director of Organizational Development at global interactive communications firm Avenue A | Razorfish, explains: "We have to balance innovation and the day job like every other business, but we have several initiatives in place to stimulate innovation. Our Ideas Lab – based in California – looks at three to five employee ideas every quarter. The creators of one idea will be awarded 90 days 'off the job' to bring the idea to launch stage. On a different scale, we also have an employee 'Wiki' where employees can communicate and log their ideas and also brainstorm client issues."

> **What *Is* Innovation?**
>
> The US government, in creating a braintrust on innovation metrics, came up with the following definition: "The design, invention, development, and/or implementation of new or altered products, services, processes, systems, organizational structures, or business models for the purpose of creating new value for customers and financial returns for the firm."[2]
>
> We prefer the more 'elegant' definition, attributed to JetBlue CEO David Neeleman and encouraged by innovation consultant Matthew May: **"Innovation is trying to figure out a way to do something better than it's ever been done before."[3]**

Other examples include:

- *Yahoo!:* According to the former VP of Talent Acquisition and Development, innovation is part of this firm's DNA and is expected throughout the organization. Yet Yahoo! also has an office that can "incubate without the pressures of the Sunnyvale bureaucracy."
- *Genentech:* This biotech leader continues to invest in innovative science while at the same time making a more concerted effort to promote innovation beyond R&D to drive process improvement and efficiencies organization-wide, according to Steve Kowalski, a member of Genentech's Executive Development team.
- *Boeing Material Management:* Organization Development Manager Michael Dimeo explains that, like many firms, this aerospace company has formal Skunk Works® operations to pursue breakthrough ideas while at the same time encouraging innovative thinking throughout the firm with Lean and other process-improvement tools.

Information security firm Symantec's Vice President of Product Management, Brian Foster, underscores the challenge that many leaders face: "You can't spend every day focusing on creativity. There has to be a balance with the immediate business results you need to deliver. Software engineers love being innovative, but you also have to fix bugs, do iterations, and so forth."

It's everyone's business.

The vast majority of leaders we interviewed agree that **every employee needs to be responsible for innovation.**

One leader in an IT firm's Ireland office described how his employer discovered that if innovation was mandated to some, the rest of the workforce abdicated their responsibility for creative thinking: "We rounded up a group of engineers and gave them the specific responsibility to 'be innovative'. They did – but then everyone else didn't."

"Be innovative" isn't enough.

Google, a company consistently cited for its culture of innovation, is reputed to have directed employees to spend 60% of their time on the job, 30% being helpful to others, and 10% 'thinking'. Yet the leaders we talked to warn of trying to *mandate* creative thinking; they felt it can't be forced but needs to be cultivated and guided, supported and enabled.

That's where leadership comes in.

Most leaders do not effectively encourage innovation.

Despite agreement that promoting innovative thinking is a critical part of their job, **leaders give themselves low marks in execution.** When 898 leaders of highly skilled employees in North America, Europe, and Asia-Pacific were asked to rate their effectiveness in nine leadership actions, 'encouraging risk-taking and innovation within my team' ranked *last.* Only 42% of respondents rated themselves as extremely or very effective.[4]

Please rate how effective you are at each of the following actions…

| Action	Extremely or Very Effective
Building trust with my team	78%
Building collaborative relationships throughout my organization	66%
Encouraging my employees to take initiative in solving problems	62%
Giving specific, relevant feedback	57%
Communicating effectively at all levels of my organization	56%
Building a strong reputation for me and my team throughout the organization	56%
Receiving feedback from others	49%
Coaching and developing the technical professionals who report to me	46%
Encouraging risk-taking and innovation within my team	42%

While these findings are generally consistent across the demographic categories of age, job tenure, industry, and geography, a few differences do exist:

- Men scored themselves slightly higher at 'encouraging risk-taking and innovation' than women, 44% vs. 36%.

- Confidence in the ability to encourage innovation grew with leadership experience. Only 24% of relatively new leaders considered themselves extremely or very effective compared to 47% of those in leadership roles for more than 7 years.

- Leaders in mid-sized organizations gave themselves lower marks than those in very small or large organizations.

Organization Size (# of employees)	Responding Extremely or Very Effective
<100	45%
100-499	34%
500-999	35%
1000-4,999	31%
5,000-9,999	43%
10,000+	44%

An analysis of leadership assessment data for 1,405 leaders in North America and Europe produced a similar picture, as illustrated in the chart below.

This leader…
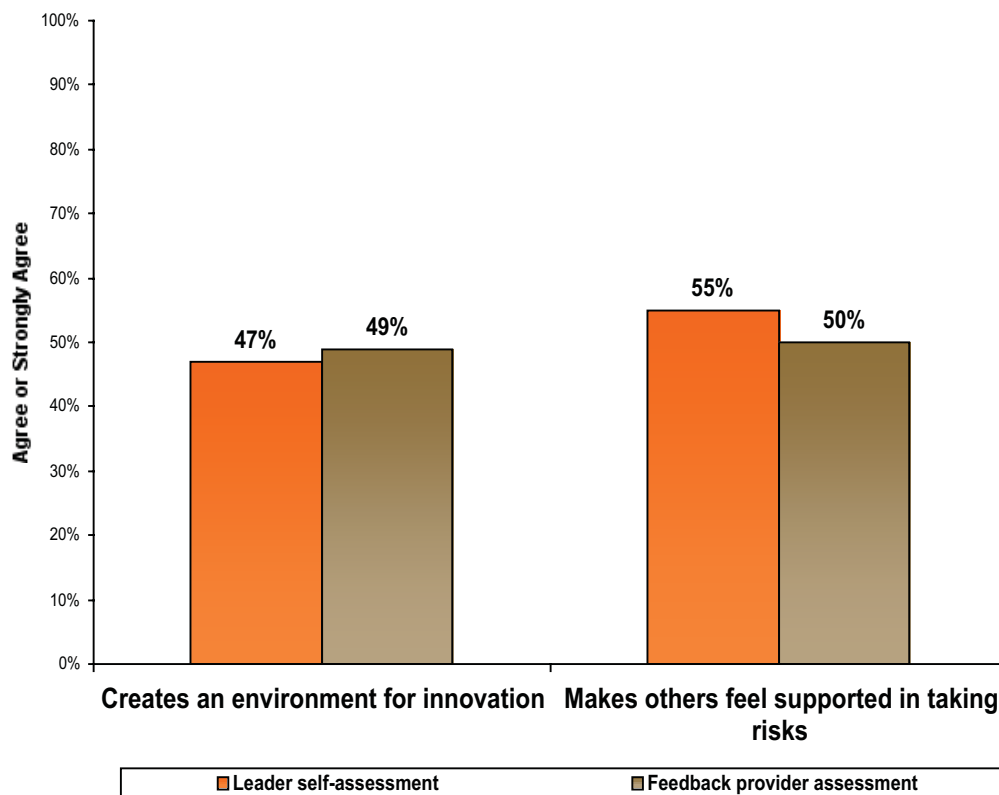
These findings were consistent across the age, gender, department, and job title/level of the leaders being measured.

- Only 47% of leaders agreed or strongly agreed that they 'create an environment for innovation.' Their managers, colleagues, and direct reports were slightly kinder (49%) in their assessment of the leaders' abilities.
- When it comes to supporting risk-taking, leaders have a slightly better perception of their abilities than the people with whom they work.

Employees believe they aren't encouraged to take risks. Telephone surveys of 1,190 employed US and UK residents provide even more disappointing news: A mere 26% of individuals interviewed indicated they are often or regularly encouraged by their manager to look for new solutions or to take risks. More than a third (37% in the UK, 41% in the US) said they are *never* encouraged to do so.

Any one of these findings on leadership effectiveness is cause for alarm. Taken together, they amount to a losing season in the innovation game. Yet our interviews with line and HR leaders reveal good intentions and a commitment to new ideas. Many leaders who feel they are stumbling are actually highly skilled. It turns out that the challenges they face are formidable.

What gets in the way?

Plenty. Common barriers include:

Competing priorities. Organizations want it all. The desire for creativity and innovation appears to smack up against the drive for productivity. How can people find the time to be creative amid the piles of work that need to be done?

Pressure for quarterly earnings. According to Wharton's George S. Day, "80% of CFOs of major corporations would reportedly hold back on discretionary spending designed to fuel growth if they were likely to miss their quarterly earnings target."[5] Jeremy Helsby, Chairman and CFO of UK-based Savills Commercial Ltd, a global real estate service provider, illustrates that cautionary approach: "We run our business on the basis of strict cost controls and profit incentives, so reacting to a new trend in the market is guided by that. Any innovations we make have to reflect this commercial imperative."

Fear of failure. Not all leaders and cultures tolerate the risk-taking associated with innovation despite the promise of big gains. Failure is unavoidably part of the process. Yet failure can result in lost time, money that appears to be wasted, and blame. As a result, leaders can hold back, as the General Manager of a global electronics manufacturer describes, "We tend to overanalyze everything – analysis paralysis. We're good at asking for more information and discussing things to death. We've been burned several times, so we're somewhat gun-shy." Leaders from even the most celebrated cultures for new ideas share this challenge. One Director of Marketing at Microsoft explains, "We're less willing to take risks than we used to. We're older and less agile. There's more to lose."

> American inventor Thomas Edison once said:
>
> "I did not fail; I just found 10,000 ways that did not work."

Distaste for disruption. Innovations of any size trigger change. Incremental improvements that don't qualify as the 'creative destruction' coined by economist Joseph Schumpeter still challenge the status quo, requiring employees and even customers to adapt their behavior. A senior manager in a financial institution based in the US described this reluctance associated with new ideas: "We get in our own way. We've done it one way and like it. Many people don't want change." She went on to underscore the need to build support for new ideas: "It would help if we could help others see the value of change and help them with it. It's easy to say 'be innovative', but you still need to justify what you're doing."

Lack of purpose. Creativity that isn't aligned to business goals or customer needs wastes time and resources, hurting not helping the bottom line. A firm can end up with innovation just for the sake of it ("17 new ways to turn your computer on and off" according to one IT leader we interviewed in Ireland). Unfortunately, BlessingWhite's last three employee engagement studies indicate that fewer than 20% of employees are likely to have work priorities linked to their organization's business strategy.[6] That means most employees won't know where to innovate or even why it's important.

Lack of collaboration. Despite widespread agreement that diverse teams produce the best ideas, one senior manager of a UK-based financial institution described a common barrier to creativity *and* execution: "Breaking down silos. It's very hard to work cross-functionally. If we could do this, we'd be more effective. We get stuck because of politics."

Steve Hunt, Chief Scientist at Kronos, a workforce technology firm, summed up the ultimate challenge expressed by many leaders – execution: "Ideas are relatively inexpensive compared to the costs associated with implementing them. **Business growth isn't driven nearly as much by the quality of ideas as by the ability to execute on them.**"

Even so, our research indicates that many of the leadership attributes and behaviors associated with increased engagement and productivity can drive *useful* ideas and successful innovation.

5 Steps Leaders Can Take to Encourage Innovative Thinking

Align your team.

Bob Champagne, Director of Corporate Development at Starbucks, emphasizes the importance of giving employees the license to pursue ideas while at the same time providing critical context and strategic direction. His approach? "We identify areas that are most important to us through strategic planning. Then we put up guard rails and let people play in these spaces."

It's all about having a **clear purpose.** To point your team in the correct direction and avoid irrelevant creativity:

- **Communicate the organization's mission, strategy, and priorities –** over and over. This makes sure that employees understand which problems are worth tackling and which goals matter most in driving the business forward. It will also help your innovators position their ideas in the right strategic context to build support for change.

- **Emphasize customer focus –** whether customers are external or internal. It's not just about reviewing stacks of customer purchase trends or feedback. Rick Peterson, Director of Marketing for Precor, an exercise equipment manufacturer, stresses that leaders need to help their teams look inside their customer's environment to observe how they use products, where they spend their time, and what their problems are. "We like to take an 'outside in' approach that allows us to truly understand our customers and their environment. Without doing this, we'd just be guessing."

- **Translate the lofty concept of 'innovation'** into tangible examples of appropriate actions and acceptable risk-taking. Story telling, with vivid descriptions of new ideas that worked or went awry, can provide powerful illustrations to make innovation real. Matthew May, an innovation consultant and founder of Aevitas Learning, takes this idea much further based on his work with Toyota Motor Sales: "Don't think of innovation as the outcome. It is an 'input' – a requirement for how team members do their jobs. Innovation is not separate from the work. *It's about finding a better way to do your job.*"

Inspire action.

Knowing what matters most is one thing. Employees need to actually *care enough* to move out of their comfort zones and apply their precious time and brainpower to innovation.

John Brennan, VP HR at financial software company Advent, suggests: *"Leaders need to establish high expectations and paint a picture of what success might look like, ideally with a story."* Author Antoine de Saint Exupery offers similar advice: *"If you want to build a ship, don't drum up the men to gather wood, divide the work, and give orders. Instead, teach them to yearn for the vast and endless sea."*

It's up to you as a leader to *capture your team's minds and hearts.* You need to:

- **Rigorously assess your own leadership attributes.** Are you totally committed to improving your customer's experience? Do you encourage risk-taking and bold ideas? Or do you have all the qualities of a competent, first-time supervisor with a clipboard who follows process and talks about not upsetting the apple cart?

- **Connect personally with the possibilities and explain why you care.** When you understand your own convictions and values, your communications reflect that personal passion. Show up! Share *your* enthusiasm for innovation. Share *your* worries about the consequences of not taking action.

- **Capitalize on the attributes of today's talent.** Many of today's employees in specialized fields (e.g., software developers, scientists, analysts, and engineers) have a passion for creative problem solving, like to stay on the 'cutting edge' of their field, and want recognition for their hard-earned expertise.[7] If you lead these expert employees, challenge them to achieve the impossible and they often will.

- **Be a role model.** If you take risks, your team will. If you fail – and candidly share your story and lessons learned – your team will be even more likely to follow your lead.

Coach the right behaviors.

Inspired employees may begin to take risks or change their way of thinking, but execution will be a pipe dream without regular coaching. This is especially true if your organization does not have a history of valuing creativity, risk-taking, or continuous improvement. As a leader, you need to maintain a **continuous dialogue** with employees to sustain focus, provide course corrections, guide decision making, and maintain high levels of engagement.

- **Encourage and vet ideas.** One Director of IT in a consumer products company explains this balancing act: "[In IT] we're trained to have a critical eye – to look for problems. I have to be careful when I invite new ideas. I sometimes poke holes too quickly." Yet it's critical to help determine whether an idea qualifies as an appropriate risk – and is worthy of next steps. Ask a lot of questions, discuss available data, determine whether more research needs to be done, identify constraints, and agree on next steps and metrics.

- **Don't micro-manage.** It's important that you and employees agree on the 'what' (the specific problem or opportunity). Yet it's critical that you allow your team ample freedom to determine the 'how'. They need to 'own' innovative thinking.

- **Help employees prioritize** to make room for innovation in the heat of short-term to-dos. "When someone wonders, 'Do I work on a new idea or do my daily work?' conversation is the best way to decide," advises Jo Stoner, SVP of HR at data integration software company Informatica. And, according to Matthew May, it may not have to be an either-or proposition. May cites Toyota as a leader in setting ambitious goals: "The best solutions often result from satisfying what seem to be mutually exclusive or competing needs."

- **Collaborate.** Most leaders attribute the best ideas to teams of diverse individuals. An IT leader with a pharmaceutical services firm suggests going beyond ensuring a blend of different skill sets or experiences. He believes collaboration is important to represent different types of customer knowledge. Rick Peterson, Precor's Director of Marketing, explains: "Let people see how you're thinking differently. If I start a thought, others pick up on it. I'm one to say let's get cross-functional and challenge each other to think about it. It's important to provide time and space to share."

- **Recognize and reward success.** Innovation isn't easy, so it's important to regularly acknowledge small successes so that team members don't become discouraged. A 'carrot' approach is particularly important because there's rarely a 'stick'. As one SVP of Marketing at a global HR consultancy explained: "When was the last time you saw someone fired solely for lacking imagination or not innovating? Until the company's expectations are clearly stated, not being innovative is the safest option for an employee."

- **Coach for job satisfaction, not just performance.** If employees aren't connected emotionally to their jobs, they won't expend discretionary effort; innovation won't have a chance.

Trust and build trust.

According to the leaders we interviewed, there are differences in what a 'trusting environment' looks like. Whereas 'irreverence' was a characteristic mentioned as key by a number of leaders in high-tech and biotech firms, leaders in more staid organizations cautioned that their cultures would not tolerate it. Leaders did agree that a trusting, open environment is one in which employees speak up candidly. It enables dissent and the creative tension that fuels innovative thinking. To achieve it, you need to:

- **Place trust in others.** Michael Dimeo, Organization Development Manager at Boeing Material Management, emphasizes: "If my boss trusts me to do the right thing – take the right risks – then obviously I'll be more willing to take that risk. Further, I'll be careful to learn all I need to learn prior to taking the risk."

- **Listen.** Many leaders, like Louis Armstrong, Vice President and Operations Manager at global engineering firm URS, stressed the importance of openness: "Managers need to create an environment for employees to be heard. It's important to not be defensive." Another leader from a Dublin-based high-tech firm agreed, "Don't stifle the creativity by saying 'That's not what we do. We can't make money.' People share ideas because they want to be heard. Any leader can do this with his/her people."

- **Turn failures into lessons learned.** The CIO of a digital TV provider cautions: "Let people fail and not have consequences. It only takes one person fired because of failure to undermine risk-taking." That doesn't mean ignoring failure – and most leaders agree that 'celebrating failure' is a bit of a misnomer. It's all about learning. "Celebrate all we can learn from a risk that failed," suggests Boeing's Dimeo. It's about 'smart' mistakes and intelligent failures, according to Steve Kowalski with Genentech's Executive Development team: "Our senior leaders have made it clear that smart decisions, based on sound data and with the best input of the right stakeholders, are a valuable part of our learning process. If they don't turn out successfully they should not be seen as failures *per se,* but as opportunities to learn more about the arenas we are innovating within."

Swim, in some cases, against the cultural tide.

Leaders who work in organizations that punish risk-taking or cling to the status quo need an extra dose of courage. They need to model initiative so that employees do the same. They may need to work extra hard to say 'why not?' And, perhaps, most importantly, they need to remove obstacles, resolve silo conflicts, and build bridges of understanding.

Beyond One-on-One Leadership:
The Role of Executives and HR

Leaders in our interviews were quick to point out entrenched organizational obstacles to innovation. Some have identified work-arounds; others stress the need for organization-wide change. That's where senior leaders, with the help of HR professionals, need to commit to providing the necessary tools and environment.

Start with your culture.

Organizational culture, like the air you breathe, touches all employees. Get it right, and it provides a foundation for whatever flavor of innovation you need. Get it wrong, and it can squash creativity and initiative and create roadblocks to action and execution. If your culture isn't supporting innovation, start at the top.

Secure champions at the top.

Microsoft Chairman Bill Gates' commitment to innovation is legendary, and the two Microsoft leaders we interviewed expressed amazement that Gates still invites ideas from the workforce of 80,000 – and secludes himself every year for a week to review them.

Another executive who leads the innovation charge is Avenue A | Razorfish's Global President Clark Kokich. According to Dee Bliss, Director of Organizational Development, Kokich toured the firm's offices worldwide to reinforce their mission statement of *Inventing the digital future:* "He explained that to be innovative we would inevitably make tons of mistakes and that these would be forgiven. In fact not making mistakes could be seen as not making an effort to innovate."

The challenge for executive advocates for innovation, of course, is **staying on message** despite pressure for quarterly earnings and market fluctuations.

Align behaviors and practices.

Organizational culture soars or crumbles by the extent to which workplace practices and leader behaviors at all levels support its core values. Jo Stoner, SVP of HR at Informatica, describes how this data integration software company has successfully woven innovation into the fabric of the company: "We hire to our core values, including innovation. We totally redesigned our orientation program, in which the CEO talks about our values-based culture. Our promotion criteria and performance management systems reflect our core values. We recognize people who propose ideas as having 'extraordinary behavior.' And we are piloting a mini-orientation for new managers to help them lead consistently with our core values."

Other firms that use similar approaches from recruiting through rewards and performance management include:

- *Sun Microsystems:* Karie Willyerd, Sun's head of Learning Services, described the need for this high-tech firm to "recruit innovators, encourage it [innovation], and live it." Rewards at Sun figure prominently as well, with a Chairman's Award given by founder Scott McNealy to celebrate innovation.

- *A semiconductor manufacturer* in the Silicon Valley provides stock options to failed project teams to encourage creativity and innovation.

- *One insurance company* based in the Midwest identified specific behaviors to shape conversations between managers and employees about what innovative thinking 'looked like':
  - *Consider a wide range of alternatives before making decisions.*
  - *Encourage the honest expression and debate of different views and ideas.*
  - *Stand up for my team's ideas with conviction and supporting data.*

What do you do if your organization doesn't state innovation explicitly in your values? Or you don't have any espoused core values? **Position innovative thinking as the means to deliver on your mission and your commitment to your customers.**

Provide structure and tools.

The leaders we interviewed described a number of strategies and tools for supporting innovation. A caveat: If your senior leaders and the organization's culture don't exude a commitment to innovation, the recommendations below aren't likely to deliver on their promise.

- **Decentralized or flat organizations.** Leaders in industries as diverse as retail and software manufacturing advocate local P&L accountability as a way to drive innovation. One director of a large retailer explains why: "There is greater urgency to solve problems." Sean Bell, VP of Strategy Development at healthcare services firm Free & Clear, underscored the advantage of his company's "relatively flat organization, where people with ideas can walk into the CEO or VP's office."

- **Structured information sharing and problem solving.** Bell also described how information-sharing practices support the strategy of seeking out problems to fix rather than waiting passively for spontaneous brilliance. Free & Clear, like Avenue A | Razorfish and others, uses a Wiki or intranet discussion board to post a problem and invite ideas for solutions.

- **Online suggestion boxes** work to generate useful ideas according to some of the leaders we interviewed – *if* there are established criteria for selection, a published vetting process, and absolute commitment to loop back to employees (whether it's to say "No thanks" or "Let's try it!"). More often than not, however, these boxes are black holes that risk killing employee initiative. That's why some leaders recommend encouraging employees to focus on what they can do in *their jobs first.*

- **Train employees and provide tools for creativity and continuous improvement.** Creativity training is a favorite for organizations that embrace innovation. And although there is some debate about continuous improvement tools (see sidebar on next page), one leader we interviewed described how his organization is using the Lean process to reduce turnaround time for customer orders from 58 days to 4 hours. The results so far: orders turned-around in 18 days!

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Lean and *Six Sigma* – Friends or Foes?

BusinessWeek's June 11, 2007 cover story "3M's Innovation Crisis" generated a hot debate on the impact of quality improvement processes on innovation. Yet Mark Graban, founder of www.leanblog.org cautions, "A tool [like Six Sigma or Lean] is merely a tool. The organization's values, metrics, and rewards will shape how the tool is used." If senior executives emphasize and reward cost-cutting and efficiency, behaviors will track in that direction. If layoffs and changes trigger morale issues, initiative and risk-taking will decline.

Innovation consultant Matthew May agrees that organizations place their hopes in Lean or Six Sigma without a commitment to doing the hard work: "Businesses have a tendency to take a programmatic approach. After an initial rollout and education, people lose focus, and the program eventually goes away. It's never tied to clear goals. Lean or Six Sigma should never be an end to themselves. They need to drive a higher purpose." May's recommendation: Creating value for customers.

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Hire and develop authentic leaders.

Leaders may realize they need to create an environment of trust to nurture innovation. Yet trustworthiness is not a skill, like delegation, which can be broken down into easy-to-follow steps. Trust is fueled by an understanding of the person behind the title – and an understanding that results from authentic leadership, not Management 101.

Conclusion

Innovation isn't moving out of the headlines any time soon.

It has become the barometer, the standard against which customers, shareholders, company leaders, and employees measure organizational vitality and value. Books and case studies may focus on the 5% to 25% of innovation that constitutes 'big I,' but most organizations are looking for competitive advantage attained from the accumulation of small ideas and improved processes that accomplish better, faster, cheaper, and more value for the customer.

While organizations need all their intellectual capital focused and committed to finding the best way to get the work done, solve customer problems, and grab market share, the very underpinning of organizations – culture – is often the biggest obstacle to innovation. To ensure that every employee rises to the call to be innovative, **eliminate cultural barriers – now.**

And although our quantitative findings paint a rather bleak picture of leaders struggling to encourage creativity and risk-taking, our interviews reveal good intentions and examples of plenty who 'get' innovation. A second look at the data also suggests that **leaders may be too hung up on semantics.** The chart on page 5 illustrates that although only 42% of leaders in one study rated themselves effective in encouraging innovation and risk-taking, nearly two-thirds (62%) rated themselves effective in 'encouraging employees to take initiative in solving problems.' These leaders are probably driving more innovative thinking than they realize.

Moreover, it is clear that **many of the leadership attributes and skills that drive productivity and employee engagement can unleash creativity and harness the expertise of employees in the name of innovation.** Employees need to understand where to devote their brainpower – and why. In many organizations they need to be inspired to take that first step. And all employees need feedback to ensure that they're on the right track and gathering the information the organization needs to decide what to do next.

The challenge for leaders at all levels: To **embrace innovation as one of the many paradoxes that define leadership.** Leaders must develop the discipline to take a 'both/and' approach. In the same way they manage the tension between a focus on people and a focus on results, they need to apply their expertise to managing their day-to-day tasks *while at the same time* creating the 'new and different.' And when they succeed, they need to be prepared to move quickly to manage the change that results from their success.

> Veteran business journalist and *Harvard Business Review* editor Tom Stewart once said, *"The literature on innovation is considerably longer than my arm. It can be summarized as follows: Innovation is either a machine or a magic garden. Because it is a machine, companies should design it, oil it, power it up, and manage it. Because it is a garden, companies should create conditions under which it can flourish, stand back and let the magic occur, then harvest it. Innovation is both of course. That's a management problem."*[8]

The Quest for 'Big I'

Although most of the leaders we interviewed seek innovative thinking for incremental process improvements, a few are charged with coming up with the next big idea. Their struggles include:

- **Build or buy?** When do you grow ideas organically and build internal capability and when do you look outside? Although lauded for their homegrown market innovations, Google bought YouTube and Starbucks bought Ethos Water. Starbucks's Director of Corporate Development Bob Champagne admits, "We certainly have the ability to grow ideas internally, but I believe that sometimes it's best to buy."

- **Outside or inside?** There's a growing trend of organizations opting to partner with customers, academics, consultants, and vendors. Two purported benefits: Maximum brain power at work and instant feedback from customers to accelerate development. Even Procter & Gamble (allegedly the firm that invented the term "not invented here") is embracing this strategy.

- **Skunk Works® or mainstream?** Lockheed Martin gets credit for adapting the 'Skonk Works' factory from the *Li'l Abner* comic strip to describe its top-secret development group that was far removed from the rest of the company. (The isolation of the factory in the comic strip was an obvious result of the employment of skunks.)[9] It remains a favorite approach for organizations trying something new, because you can start small, provide freedom, and determine whether you have a winner without widespread disruption. Today some firms are taking a more inclusive, hybrid approach where teams have different goals and rules of the road but report to the same manager. Stanford Professor Charles O'Reilly III and Harvard professor Michael Tushman call this the 'ambidextrous organization.'

- **How much should you feed the innovation beast?** Leaders recognize that their employers, always cognizant of Wall Street pressures, constantly re-evaluate their investments. Kronos's Chief Scientist Steve Hunt explains, "One of the hardest things about innovation is investing in something that won't pay off immediately. Because of resource constraints, companies struggle with the question, 'Do we devote resources to maximizing existing revenue streams or creating new sources of income?'" Innovation consultant Matthew May points to Toyota as an example of a firm whose relentless commitment to continuous improvement delivers the profits that can fund breakthrough ideas (e.g., the Lexus or Prius).

Methodology

The quantitative findings in this report reflect the following BlessingWhite research:

- Online surveys completed by nearly 900 leaders of highly skilled employees (e.g., software developers, scientists, engineers, analysts) in North America, Europe, and Asia-Pacific as part of BlessingWhite's *Leading Technical Professionals* study.
- Telephone interviews with more than 1,100 employed residents of the US and UK. In the US, International Communications Research completed a telephone survey of 690 employed Americans who have a manager or are not self-employed. BMRB interviewed 500 employed residents of the UK.
- Ongoing analysis of BlessingWhite's database of leadership assessments for 1,405 leaders with 7,924 feedback providers from a cross-section of industries, functions, and job titles/levels.

Our team conducted interviews with nearly 50 line and HR leaders from a variety of organizations – some known for innovation, others not – to explore their challenges and best practices for leading innovation. The leaders interviewed work in a cross-section of industries: high technology, pharmaceutical/biotech, engineering, financial services, manufacturing, retail, media/entertainment, and others. Leaders from high-tech firms represented 38% of our interviews. 73% of the leaders are male. 18% work in Europe.

Selected Readings

"At 3M, A Struggle Between Efficiency and Creativity," *BusinessWeek,* June 11, 2007

Blue Ocean Strategy, W. Chan Kim & Renée Mauborgne (Harvard Business School Press)

The Elegant Solution: Toyota's Formula for Mastering Innovation, Matthew E. May (Free Press)

The Human Side of Managing Technological Innovation, Ralph Katz, ed. (Oxford University Press)

"Innovation Agility," Kevin Dehoff & John Loehr, *Strategy & Business,* Summer 2007

The Innovator's Dilemma, Clayton M. Christensen (Harvard Business School Press)

"Overcoming Barriers to Innovation: Balancing Management and Creation," Tom Yorton, *Employment Relations Today,* January 2006

"Segway Inventor Dean Kamen on Risk-Taking and Innovation," *CIO,* April 9, 2007

"Sustaining Corporate Growth Requires 'Big I' and 'small i' Innovation," *Knowledge@Wharton,* February 21, 2007

"Think Small," Rajan Varadarajan, *Wall Street Journal,* February 14, 2007

Notes

1 George S. Day, "Sustaining Corporate Growth Requires 'Big I' and "small i' Innovation," *Knowledge@Wharton,* February 21, 2007, p. 1

2 Helen Walters, "An Official Measure of Innovation," *BusinessWeek,* April 20, 2007

3 Matthew E. May, *Elegant Solutions: Breakthrough Thinking the Toyota Way,* p. 7

4 BlessingWhite's *Leading Technical Professionals 2006,* p. 7

5 Day, p. 1

6 BlessingWhite's *Employee Engagement 2006,* p. 17

7 BlessingWhite's *Leading Technical Professionals 2006,* p. 9

8 Thomas Stewart, *The Wealth of Knowledge: Intellectual Capital and the Twenty-First Century Organization,* NY: Random House, 2001, p. 183

9 Tom Yorton, "Overcoming Barriers to Innovation: Balancing Management and Creation," *Employment Relations Today,* January 2006, p. 5

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