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How Innovative Is Your Company's Culture?

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How Innovative Is Your Company's Culture?

Many executives want their companies to be more innovative. A new assessment tool can help pinpoint your company's innovation strengths and weaknesses.

BY JAY RAO AND JOSEPH WEINTRAUB

THE LEADING QUESTION

How can companies develop a more innovative corporate culture?

FINDINGS

- An innovative culture rests on a foundation of six building blocks: resources, processes, values, behavior, climate and success.
- Surveying employees about the organization's innovation culture can identify areas of strength, weakness and inconsistency.
- Managers eager to change the company's culture should start small and scale slowly.

TODAY'S EXECUTIVES WANT their companies to be more innovative. They consume stacks of books and articles and attend conventions and courses on innovation, hoping to discover the elixir of success. They are impressed by the ability of comparatively young companies such as Google and Facebook to create and market breakthrough products and services. And they marvel at how some older companies — Apple, IBM, Procter & Gamble, 3M and General Electric, to name a few — reinvent themselves again and again. And they wonder, "How do these great companies do it?"

After studying innovation among 759 companies based in 17 major markets, researchers Gerard J. Tellis, Jaideep C. Prabhu and Rajesh K. Chandy found that corporate culture was a much more important driver of radical innovation than labor, capital, government or national culture.[1] But for executives, that conclusion raises two more questions: First, what is an innovative corporate culture? And second, if you don't have an innovative culture, is there any way you can build one? This article addresses both questions by offering a simple model of the key elements of an innovative culture, as well as a practical 360-degree assessment tool that managers can use to assess how conducive their organization's culture is to innovation — and to see specific areas where their culture might be more encouraging to it.

Six Building Blocks of an Innovative Culture

An innovative culture rests on a foundation of six building blocks: resources, processes, values, behavior, climate and success. (See "The Six Building Blocks of an Innovative Culture," p. 30.) These building blocks are dynamically linked. For example, the values of the enterprise have an impact on people's behaviors, on the climate of the workplace and

At W.L. Gore, the Delaware chemical products company famous for Gore-Tex and other high-performance products, mistakes made in the pursuit of novel solutions are accepted as part of the creative process.

COURTESY OF W.L. GORE

on how success is defined and measured. Our culture of innovation model builds upon dozens of studies by numerous authors. (See "About the Research.")

When it comes to fostering innovation, enterprises have generally given substantial attention to resources, processes and the measurement of success — the more easily measured, tools-oriented innovation building blocks. But companies have often given much less attention to the harder-to-measure, people-oriented determinants of innovative culture — values, behaviors and climate. Not surprisingly, most companies have also done a better job of managing resources, processes and measurement of innovation success than they have the more people-oriented innovation building blocks. As many managers have discovered, anything that involves peoples' values and behaviors and the climate of the workplace is more intangible and difficult to handle. As one CEO put it, "The soft stuff is the hard stuff." Yet these difficult "people issues" have the greatest power to shape the culture of innovation and create a sustained competitive advantage.

Values *Values* drive priorities and decisions, which are reflected in how a company spends its time and money. Truly innovative enterprises spend generously on being entrepreneurial, promoting creativity and encouraging continuous learning. The values of a company are less what the leaders say or what they write in the annual reports than what they do and invest in. Values manifest themselves in how people behave and spend, more than in how they speak.

Behaviors *Behaviors* describe how people act in the cause of innovation. For leaders, those acts include a willingness to kill off existing products with new and better ones, to energize employees with a vivid description of the future and to cut through red tape. For employees, actions in support of innovation include doggedness in overcoming technical roadblocks, "scrounging" resources when budgets are thin and listening to customers.

Climate *Climate* is the tenor of workplace life. An innovative climate cultivates engagement and enthusiasm, challenges people to take risks within a safe environment, fosters learning and encourages independent thinking.[2]

Resources *Resources* comprise three main factors: people, systems and projects. Of these, people — especially "innovation champions" — are the most critical, because they have a powerful impact on the organization's values and climate.

Processes *Processes* are the route that innovations follow as they are developed. These may include the familiar "innovation funnel" used to capture and sift through ideas or stage-gate systems for reviewing and prioritizing projects and prototyping.

Success The *success* of an innovation can be captured at three levels: external, enterprise and personal. In particular, external recognition shows how well a company is regarded as being innovative by its customers and competitors, and whether an innovation has paid off financially. More generally, success reinforces the enterprise's values, behaviors and processes, which in turn drive many subsequent actions and decisions: who will be rewarded, which people will be hired and which projects will get the green light.

THE SIX BUILDING BLOCKS OF AN INNOVATIVE CULTURE

When it comes to fostering innovation, enterprises often give more attention to resources, processes and measuring success — the more easily quantified, tools-oriented innovation building blocks — but less to the harder-to-measure, people-oriented determinants of innovative culture — values, behaviors and climate.

Building Blocks at Work

While our six building blocks may seem abstract, we find that truly innovative companies always have at least one of the building blocks solidly in place.

IDEO: Values and Behaviors For example, few companies better exemplify

innovative values and behaviors than IDEO, the Palo Alto, California-based global design consultancy. IDEO puts a high value on productive creativity, which it links to playful behavior. And it supports both in tangible ways. Its work routines model children's playfulness: exploration that generates many ideas; learning through hands-on building; and role playing to build empathy for users. Placards placed around the company's workspaces proclaim IDEO's principles for "diving deep" into problems:

•Encourage wild ideas,
•Defer judgment,
•Build on the ideas of others,
•Stay focused.

This play is just the first stage of IDEO's innovation process. Next, its employees begin to make decisions regarding a product's design and implementation. This range of behavior styles — from playful to businesslike — has contributed to hundreds of products that combine the best of form and function, from the computer mouse to medical equipment.[3]

W.L. Gore: Climate Safety is an important factor in an innovative climate. A fearless workplace frees people to take the risks innovation requires. W.L. Gore, the Delaware chemical products company famous for Gore-Tex and other high-performance products, provides an instructive example of safety. Here, mistakes made in the pursuit of novel solutions are accepted as part of the creative process. When a project is killed, staff celebrate its passing with beer and champagne. When a project fails, a post-mortem is conducted. Flawed concept or poor execution? Bad decisions? The goal of these postmortems is not to punish, but to learn and improve.[4]

Rite-Solutions: Processes and Success Recognizing that they have no monopoly on brainpower or good ideas, the founders of Rite-Solutions, a Rhode Island systems and software development company, developed a process for drawing on their employees' collective creativity.

Dozens of project ideas are listed and described in detail on the company's internal "market." All new listings begin trading at $10 per share. Every employee is given $10,000 of play money with which to invest, and each uses his or her judgment in allocating that money among the available "stocks." Employees can also volunteer to work on projects they favor. Management uses their collective wisdom to make decisions on which projects will be funded. Play money is redeemed for real cash if and when a project turns into a commercial product.[5]

Whirlpool: Resources A cadre of innovation experts who know, teach and implement innovative practices is one of the most important innovation resources a company can have. For decades, Whirlpool, the world's largest appliance maker, was an engineering- and manufacturing-oriented company fixated on quality and cost. Its products were mostly commodities sold at large retailers, such as Sears and Best Buy. In 1999, the Michigan-based company embarked on a mission to be recognized as being an innovation leader as well. The company started by enlisting 75 employees from across the company to brainstorm about innovative products. The group came up with one hit product, but most ideas were viewed as too far-out or insignificant. Like many first-time innovators, people had a difficult time seeing how a more far-reaching idea could turn into an opportunity. That's when Whirlpool decided to try a different tack.

ABOUTTHE RESEARCH

The authors have more than 30 years of executive development experience in customized training programs for large enterprises. Their teaching and consulting revolve around the topics of innovation, leadership and corporate entrepreneurship.

Our culture of innovation model builds upon dozens of studies by numerous authors. We reviewed literature in the fields of organizational dynamics, leadership, behavioral science, corporate entrepreneurship and innovation to find theoretical frameworks and models that described organizational culture and a culture of innovation. Specifically, we looked for instruments and assessment tools that were actionable — a primary need for all executives hoping to bring about change. In doing so, we found extensive research and models from academia, consulting firms and enterprises themselves, spanning over 30 years. In particular, the works of Harvard Business School's Clayton M. Christensen demonstrated to us the importance of resources, processes and values in innovation. Edgar H. Schein, professor emeritus at MIT, showed the importance of past success and its impact on values (norms) and behaviors. Geert Hofstede clarified the distinction and connection between climate and culture. Booz & Company's Katzenbach Center's work on culture is also well known. The ideas of Charles O'Reilly and Daniel Denison also influenced our model. Finally, Tellis, Prabhu and Chandy provided an extensive literature review of the role of corporate culture and the components of corporate culture in radical innovation.[i]

Our thinking about the survey's basic framework was heavily influenced by Christensen's and Schein's work. The 54 elements and 18 factors were field-tested for over two years for statistical validity and executive acceptance as both a diagnostic and actionable tool. Data was gathered from 1,026 executives and managers in 15 companies headquartered in the U.S., Europe, Latin America and Asia.

First, every salaried employee was enrolled in a business innovation course. Second, the company trained certain employees, called I-mentors, who were similar to the Six Sigma Black Belts who worked on quality in the company. The I-mentors still kept their regular jobs but brought to those roles special training on how to facilitate innovation projects and help people with their ideas. An intranet portal offered employees a common forum for learning principles of innovation, keeping abreast of recent research and tracking the progress of ideas toward realization. Innovation teams comprised of employees from all levels of the company screened and vetted new ideas.

Two years into the program, Whirlpool had 100 business ideas, 40 concepts in experimentation and 25 products and business ideas in the prototype stage. By early 2006, Whirlpool had hundreds of ideas in the pipeline, 60 in the prototype stage and 190 being scaled for the market. By 2007, new products stemming from the innovation areas contributed nearly $2.5 billion in worldwide revenue, and approximately $4 billion of $19 billion in 2008 revenues. In 2008, Whirlpool had 61,000 employees and nearly 1,100 volunteer I-mentors worldwide who helped facilitate innovation throughout the business. Executives at Whirlpool ascribe their success in part to the way this investment in innovation and training has changed the company's culture.

Whirlpool's focus on resources demonstrates that a critical starting point for a deliberate, systematic and comprehensive innovation initiative begins by building a community of innovation experts. Most innovations happen within a community, and the core of any community is a common language. All disciplines — management, medicine, law — have their own lingua franca.[6] So does innovation. Creating a community of innovators requires a good understanding of the language of innovation and its concepts and tools.

Assessing an Enterprise's Innovation Culture

Each of the six building blocks in our model is composed of three factors (18 in all), and each of those factors incorporates three underlying elements (54 in all). As we move from those abstract building blocks toward more concrete elements, the innovative culture becomes more measureable and manageable — for example, the abstract building block of climate involves the factor of safety, which can be further divided into openness, integrity and trust.

After developing our building-block framework, we designed a test around these 54 elements to enable managers to assess the innovation culture of their company.[7] Over the past three years, we have given the test to 1,026 managers at 15 companies, diversified by sector and geography. (See "The Building Blocks of Innovation Survey," p. 34. Turn the magazine clockwise to read the survey.)

To analyze the results for an organization, we calculate an average for each question (element), the distribution of the responses for each question, an average for each factor (average of the three questions related to each factor) and finally the average for each building block (the average for the three factors related to the building block). The final average of the six building blocks represents the company's overall score, which we call the "Innovation Quotient."

The Innovation Quotient number can be a useful benchmark for comparing the overall level of innovation between companies, divisions and teams based in different regions. However, executives we have worked with tell us that the most important value of the Innovation Quotient assessment is its ability to rank the factors and elements that support innovation. This gives them an easy-to-understand scorecard that allows them to zero in on the strengths and weaknesses of their organization's innovation culture.

Applying the Tool

A large, family-owned Latin American agribusiness needed to set up of a new division abroad. The company had a relatively strong executive team comprising mostly family members, who made all the decisions and drove implementation. As successful as the company had been as an exporter, however, executives realized they did not have the bench strength among their managers to undertake this new venture. They decided to use our assessment tool to find out how they could develop the creative leadership they needed to grow.

The employees who took the survey gave the

company high marks on external success (which they ranked No. 1 among 18 factors) and enterprise success (No. 6 among 18 factors), but ranked the company poorly on the individual component of success, ranking it No. 16 out of 18 factors. Employees also ranked the company's leadership poorly on engaging the rest of the workforce; the "engage" factor ranked lowest among the 18 factors. (See "Ranking Innovation Factors at a Latin American Agribusiness.") Individual employees did not take the initiative in innovation activities (ranked No. 53 out of 54 elements), perhaps partly because the leaders did not coach and provide feedback to employees (ranked No. 50 out of 54 elements). Many employees felt that they did not have adequate support from leadership during success or failure of projects (ranked No. 46 of the 54 elements). Nor did they think the company would reward individuals for participating in potentially risky opportunities (ranked No. 51 out of 54 elements).

After a healthy discussion of the survey results, the executive team set out to develop the next layer of management through management training programs coupled with delegation, coaching, support and feedback systems — and most of all, by changing their own behavior.

Everyone's Opinion Counts We find that people at or near the top — the individuals who make the decisions and control activities — often tend to have a much rosier view of their organization's culture than do mid- to lower-level managers and rank-and-file employees. Executives, like everyone else, naturally think that they are doing a good job. Further, executives do not always have a complete view of enterprise reality; they simply cannot see everything that goes on.

Executives are also often at odds with their employees in terms of where they see the greatest strengths. Most executives rate their companies as being stronger in the more intangible, people-oriented building blocks (values, behaviors and climate) than in the more tangible, tool-oriented ones (resources, processes and definition of success). People lower in the enterprise often make the opposite assessment.

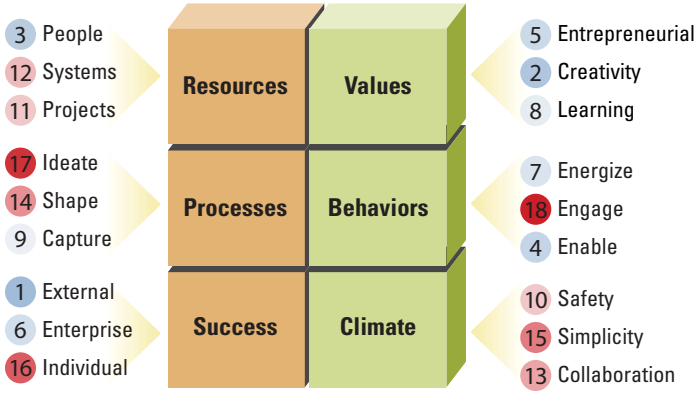
If given to a broad enough group, the survey can help correct for these two imbalances, by, in effect, giving 360-degree feedback to capture the insights of many and bring to light things that the bosses cannot see.

Elimination of Conjecture and Barriers to Change The bigger the organization, the more resistant the enterprise is to change.[8] This trait seems to be most pronounced in multinational companies. Managers often blame poor acceptance of new strategies, sloppy implementation of enterprise-wide projects and lack of standardized processes across geographies and divisions on subcultures within the enterprise.

A structured cultural assessment using something like the Innovation Quotient survey can check the veracity of such complaints. For example, a global medical device company wanted to act upon a more coordinated global operations strategy. Two years into the program, the executives and senior managers of the company spoke of big challenges due to the cultural differences between their European and U.S. operations, and also between the R&D and manufacturing groups in those two geographies. To everyone's surprise, the assessment results found no statistical differences between the units' responses for each of the six building blocks — suggesting that their problems were due to some other issue.

RANKING INNOVATION FACTORS AT A LATIN AMERICAN AGRIBUSINESS

Employees at a large, family-owned Latin American agribusiness gave the company high marks on external success (which they ranked No. 1 among 18 factors) and enterprise success (No. 6 among 18 factors), but ranked the company's poorly on the individual component of success, a factor they ranked No. 16 out of 18. Employees also ranked the company's leadership poorly on engaging the rest of the workforce; the "engage" factor ranked lowest among the 18 factors.



THE BUILDING BLOCKS OF INNOVATION SURVEY

Our culture of innovation model has a total of six building blocks, 18 factors and 54 elements. (Each building block has three factors, and each factor consists of three elements.) Survey respondents should rate their organization on each of the 54 elements, on a scale of 1 to 5, using the following scale: *1 = Not at all; 2 = To a small extent; 3 = To a moderate extent; 4 = To a great extent; 5 = To a very great extent.*

The overall average scores for elements are further averaged to provide the factor score, and the factor averages similarly result in the building block average. That average of the six building blocks is what we call the group's "Innovation Quotient." Please note that the value of the survey increases as the sample size increases, particularly when respondents come from different levels of the corporate hierarchy and different units of the company.

BUILDING BLOCKS	FACTORS	ELEMENTS	SURVEY QUESTIONS	ELEMENT SCORE	FACTOR AVERAGE	BUILDING BLOCK AVERAGE
VALUES	**Entrepreneurial**	Hungry	We have a burning desire to explore opportunities and to create new things.			
		Ambiguity	We have a healthy appetite and tolerance for ambiguity when pursuing new opportunities.			
		Action–oriented	We avoid analysis paralysis when we identify new opportunities by exhibiting a bias towards action.			
	Creativity	Imagination	We encourage new ways of thinking and solutions from diverse perspectives.			
		Autonomy	Our workplace provides us the freedom to pursue new opportunities.			
		Playful	We take delight in being spontaneous and are not afraid to laugh at ourselves.			
	Learning	Curiosity	We are good at asking questions in the pursuit of the unknown.			
		Experiment	We are constantly experimenting in our innovation efforts.			
		Failure OK	We are not afraid to fail, and we treat failure as a learning opportunity.			
BEHAVIORS	**Energize**	Inspire	Our leaders inspire us with a vision for the future and articulation of opportunities for the organization.			
		Challenge	Our leaders frequently challenge us to think and act entrepreneurially.			
		Model	Our leaders model the right innovation behaviors for others to follow.			
	Engage	Coach	Our leaders devote time to coach and provide feedback in our innovation efforts.			
		Initiative	In our organization, people at all levels proactively take initiative to innovate.			
		Support	Our leaders provide support to project team members during both successes and failures.			
	Enable	Influence	Our leaders use appropriate influence strategies to help us navigate around organizational obstacles.			
		Adapt	Our leaders are able to modify and change course of action when needed.			
		Grit	Our leaders persist in following opportunities even in the face of adversity.			
CLIMATE	**Collaboration**	Community	We have a community that speaks a common language about innovation.			
		Diversity	We appreciate, respect and leverage the differences that exist within our community.			
		Teamwork	We work well together in teams to capture opportunities.			
	Safety	Trust	We are consistent in actually doing the things that we say we value.			
		Integrity	We question decisions and actions that are inconsistent with our values.			
		Openness	We are able to freely voice our opinions, even about unconventional or controversial ideas.			
		No bureaucracy	We minimize rules, policies, bureaucracy and rigidity to simplify our workplace.			

	Simplicity					
		Accountability	People take responsibility for their own actions and avoid blaming others.			
		Decision-making	Our people know exactly how to get started and move initiatives through the organization.			
RESOURCES	**People**	Champions	We have committed leaders who are willing to be champions of innovation.			
		Experts	We have access to innovation experts who can support our projects.			
		Talent	We have the internal talent to succeed in our innovation projects.			
	Systems	Selection	We have the right recruiting and hiring systems in place to support a culture of innovation.			
		Communication	We have good collaboration tools to support our innovation efforts.			
		Ecosystem	We are good at leveraging our relationships with suppliers and vendors to pursue innovation.			
	Projects	Time	We give people dedicated time to pursue new opportunities.			
		Money	We have dedicated finances to pursue new opportunities.			
		Space	We have dedicated physical and/or virtual space to pursue new opportunities.			
PROCESSES	**Ideate**	Generate	We systematically generate ideas from a vast and diverse set of sources.			
		Filter	We methodically filter and refine ideas to identify the most promising opportunities.			
		Prioritize	We select opportunities based on a clearly articulated risk portfolio.			
	Shape	Prototype	We move promising opportunities quickly into prototyping.			
		Iterate	We have effective feedback loops between our organization and the voice of the customer.			
		Fail smart	We quickly stop projects based on predefined failure criteria.			
	Capture	Flexibility	Our processes are tailored to be flexible and context-based rather than control- and bureaucracy-based.			
		Launch	We quickly go to market with the most promising opportunities.			
		Scale	We rapidly allocate resources to scale initiatives that show market promise.			
SUCCESS	**External**	Customers	Our customers think of us as an innovative organization.			
		Competitors	Our innovation performance is much better than other firms in our industry.			
		Financial	Our innovation efforts have led us to better financial performance than others in our industry.			
	Enterprise	Purpose	We treat innovation as a long-term strategy rather than a short-term fix.			
		Discipline	We have a deliberate, comprehensive and disciplined approach to innovation.			
		Capabilities	Our innovation projects have helped our organization develop new capabilities that we did not have three years ago.			
	Individual	Satisfaction	I am satisfied with my level of participation in our innovation initiatives.			
		Growth	We deliberately stretch and build our people's competencies by their participation in new initiatives.			
		Reward	We reward people for participating in potentially risky opportunities, irrespective of the outcome.			

The knowledge that people in these different units thought and acted more alike than previously supposed profoundly affected the leadership group. Having lost the excuse that differing work cultures was the source of their problems, they were able to use the similarities between groups as a basis for greater collaboration.

Exposing Inconsistencies Between Thought and Action Another useful aspect of this tool is its ability to reveal inconsistencies. For instance, we find that most senior executives rate themselves highly in terms of their desire to explore new opportunities yet do not always provide their people with the time, space or money to pursue those opportunities. Similarly, they give themselves high scores for providing the freedom to pursue new opportunities even as their subordinates describe their workplace climate as rigid and bureaucratic.

This turned out to be the core problem faced by a very large company in the U.S. entertainment industry. Employees ranked the creativity factor under the values building block very highly, but the climate within the enterprise was anything but open. Simplicity — lack of bureaucracy and rigidity — ranked at the very bottom of the 54 elements. Also, people were not given sufficient resources to conduct innovative projects. Dedicated resources for projects ranked close to the bottom: No. 53 out of 54 elements. Not surprisingly, the company had trouble innovating. As mentioned earlier, values are much less about what executives think, speak or write than about what they actually do — as measured by time, money or resources.

Pursue Change Where It's Possible One practical virtue of the Innovation Quotient tool is that it can be applied at any level. Even in a company with a caustic culture, local leaders can use the tool to help build islands of innovative thinking and action. By asking direct reports to respond to the 54 questions in the survey, the leader of any subunit — subsidiary, division, department or team — can determine the innovation quotient of his or her area of responsibility and begin a campaign to make positive change.

Consider the case of a U.S. subsidiary of a large European bank. The bank had a reputation as an inflexible, bureaucratic, command-and-control company. Neither its competitors nor its customers regarded it as innovative. Nevertheless, the subsidiary's culture had some strengths. Employees felt that it was a safe climate in which they could question decisions and actions. Their executives also inspired them with a bold vision of the future. Building on those factors, the leaders of the unit were able to become visible champions of innovation, and the subsidiary managed to accomplish quite a lot within its market.

Using the Results The survey instrument is not meant to look for balance — either among building blocks or among the factors within them. Companies that are very low on some factors but very high on others can still be successful. For instance, one very successful U.S. high-tech company rated quite low for climate but very high for the other five factors. Nor should one expect to find balance all over the company. It may be fine and even desirable if, for instance, a bank's compliance officers are less innovative than its marketers.

Moving From Assessment to Action

After examining the survey results, management can get a clear, data-supported picture of where their culture is strong and weak and then focus on specific areas where improvement is most needed and most likely to pay off. For instance, if the survey question, "Our leaders model the right innovation behaviors for others to follow," receives low scores from the IT group, the chief information officer may be encouraged to make some changes.

These results also provide opportunities for learning. High scores in one or more units may indicate best practices that managers in lower-performing units can emulate.

Focus on Strengths Most executives want to immediately fix the negatives in the Innovation Quotient assessment, but we find it's best to build on an organization's strengths. For example, a large European insurance company that had specifically set up an internal venture unit to help it become more entrepreneurial and innovative found the new unit wasn't accomplishing as much

as it should. After administering the Innovation Quotient assessment, executives found the unit was not engaging people from different levels with its innovation initiatives. This resulted in a climate that lacked collaboration. However, the assessment showed that employees were eager to be innovative and creative. They even thought that they had the right internal champions and talent to succeed in their innovation initiatives. Understanding this, the executives concluded that they just needed to bring people in the organization together to make things start to happen.

Start Small and Scale Slowly Managers eager to transform their cultures often try to do too much at once. A better strategy is to focus on a few things and leverage their successes into a broader transformation over time. Cultures change very slowly. When asked to participate, people often show resistance — undermining and active sabotage are common. "Show, not sell" persuasion works best in these situations, along with healthy dollops of encouragement to early adopters.

Barring an external jolt or internal crisis, it is difficult to change deep-seated beliefs and behaviors and redefine success in an instant. For best results, leaders should aim for small victories — at least at first. A practical way to begin is to ask one or two units to work on no more than three of the 54 elements. Their success should trigger a widening circle of improvement. Measurable results are more powerful than arguments, campaigns and mandates: People change when they see their peers becoming more productive, engaged and successful.

Using an innovation assessment tool such as the Innovation Quotient survey can be a first step for companies that intend to enhance their culture of innovation. In developing a plan that utilizes survey results to improve the organization's innovation culture, companies should begin by focusing on their organizational strengths, starting small and scaling up slowly. Finally, beware of past triumphs. Over time, the strong culture of a successful organization can become a stumbling block, making the company blind to new technologies, new business models or new possible competitors emerging on the horizon. Business history is filled with examples of companies that were innovative market leaders in one generation and turned into unimaginative bureaucracies in the next.

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