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This article was adapted from *Innovation to the Core*, a book currently in development with Peter Skarzynski, CEO and founding director of Strategos, a consulting firm he co-founded with Gary Hamel, to be published by Harvard Business School Press.

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Innovation. From the boardroom to the business press, everyone is talking about it. In any survey of management priorities these days, innovation is almost always one of the top two or three items on the corporate agenda.

However, making innovation a priority is not the same thing as making it happen. All too often, innovation becomes nothing more than a buzzword or a bumper sticker – the management theme *du jour* – that receives a lot of reverential rhetoric in company meetings, corporate ad campaigns and annual reports.

The difficult challenge for most organisations is how to turn all that rhetoric into hardnosed, revenue growing reality – not just by making incremental tweaks to existing products or services or by pursuing a once in a blue moon blockbuster, but by producing a constant stream of breakthrough innovations that compound over time to build a formidable competitive advantage.

Very few firms have managed to pull this off. However, the list of major companies that are working methodically on the innovation challenge is growing by the day and the progress of a few pioneering firms provides hope and inspiration for the rest of the business community.

These leading edge players – companies like General Electric, Procter and Gamble, IBM, Whirlpool, Royal Dutch Shell, Best Buy, Roche and others – are demonstrating that large industrial organisations really can tackle the challenge of innovation successfully in a broad based and highly systemic way.

Institutionalising innovation

Building a systemic innovation capability is exactly analogous to the efforts companies have taken to develop, deploy and sustain

Making innovation happen: *turning it into an enterprise-wide capability*

other enterprise capabilities – such as Toyota's lean manufacturing or GE's Six Sigma. In each case, as is true with innovation, it was a difficult challenge requiring sustained commitment over time.

Nobody can hope to achieve anything by throwing a light switch and saying, "OK, from Monday morning we're all going to be a lot more innovative." Anyone who seriously wants to influence the values and dynamics of a large scale, distributed human system is going to have to roll up their sleeves and get ready for some really hard work.

We might compare it to a Russian *matryoshka* doll. From the outside the doll appears simple and straightforward. But, as we all know, there is much more to it than first meets the eye. When we open it up, we discover that it is actually made up of many nested layers, one inside the other and that it takes every one of those layers to make the doll complete.

So too, when we move beyond a superficial understanding of innovation – when we begin to dig down – we find that innovation is a deep, systemic challenge that involves considerable effort across a whole range of interdependent dimensions.

Any enterprise capability – i.e. quality, customer service – has some common components to it such as leadership, organisational infrastructures, corporate values, enabling processes, tools, metrics and skills.

All of these mechanisms must be 'nested' together for the system to function effectively. As with quality, making innovation an intrinsic and systemic competence demands that a company assembles and tightly integrates all of these components.

In this article, we will outline four interdependent and mutually reinforcing components that need to come together to institutionalise innovation:

- ❖ *leadership and organisation*: visionary leaders and organisations aligned around a common definition of innovation,
- ❖ *people and skills*: a disciplined approach to building innovation capabilities across the organisation,
- ❖ *processes and tools*: a systematic approach and supporting tools to enable idea generation, pipeline and portfolio management,
- ❖ *culture and values*: a collaborative, open culture and incentives that reward challenging the status quo.

These components appear to be almost generic for making innovation a capability inside any organisation. Let's consider each of them in turn.

Leadership and organisation

Building a self-sustaining, 'all the time, everywhere' capability for innovation is

fundamentally a leadership challenge – it is something that absolutely has to be spearheaded by the CEO. Without the full engagement and commitment of the leadership team of the company, the idea of making innovation a core competence doesn't stand a snowball's chance.

At Procter and Gamble, the mandate for open innovation – 50% of which should originate outside the organisation – came from the man at the top, A G Lafley. The mission to drive organic growth at GE by turning a 120 year old industrial giant into a nimble 'imagination company' came directly from CEO Jeff Immelt.

The push to turn Mexican cement maker, Cemex, into an innovation powerhouse came from CEO Lorenzo Zambrano. The directive to embed innovation as a core competence at Whirlpool came from the former CEO, David Whitwam.

Realising a company's innovation embedment vision on a large or even global scale also requires a tangible organisational infrastructure for innovation.

Building an infrastructure for innovation involves much more than merely linking R&D with other departments like marketing, industrial design and customer research.

Such restructuring efforts do little to distribute the responsibility for innovation any further than that. They fall far short of embedding innovation as a systemic capability that permeates the entire organisation.

To make innovation a pervasive capability throughout the company, the responsibility needs to be taken out of these traditional structures and spread throughout a company's businesses and functions.

This is exactly what happened to quality in the 1970s and 1980s when it ceased to be the exclusive responsibility of a specific department and instead became distributed to every corner of the company.

What is required is a similarly systemic infrastructure for innovation that starts at the corporate level and infiltrates each and every part of the organisation chart. An infrastructure that makes managers accountable at all levels for driving, facilitating and embedding the innovation process into every nook and cranny of the cul-

ture.

In the new organisation chart, the people who manage innovation are not a small creative team in an R&D department or a skunk works, but a large, diverse and companywide team who co-ordinate innovation activities throughout the corporation.

They are there to embed innovation as a capability and to ensure that the company continues to manage and maintain that capability.

People and skills

Increasingly, companies such as Whirlpool, Procter and Gamble, GE and IBM are realising that ordinary employees can become extraordinary innovators.

Over the years and with a lot of learning and practice, these companies have enabled frontline innovation through mechanisms such as discretionary time allowance, innovation training and tools, an open market for ideas, easy access to incremental seed funding and structures for mentoring and support.

In so doing, they have dramatically raised the innovation potential across their companies – and often beyond their organisations, too.

Decades ago, Toyota showed that quality could be pushed to unprecedented levels by investing in the problem solving skills of every employee. Likewise, it will be companies who invest in their employees' capacity for creativity that will raise the bar – and eventually take the lead – in the emerging innovation economy.

Building an enterprise capability for innovation repositions the role of human resources. In many organisations, HR has never gone much beyond being a glorified 'personnel' department that busies itself with recruitment and firing, employee compensation and comfort, corporate policies, government regulations and generic training programmes.

However, as soon as a company recognises the strategic and economic value of building a corporatewide innovation capability, HR automatically moves to centre stage.

The new role for HR must be to help an organisation unleash the full potential for innovation and wealth creation that is latent in its human capital. Dr Liisa Välikangas of the Woodside Institute says, "HR's role should be to help build this capability companywide, to design an innovation curriculum, establish an innovation training centre and to support other related internal initiatives.

"HR professionals can add value by creating a company culture where everyone in the company is responsible for innovation – whether as an innovator, mentor, manager or a team member."

Companies that want to make innova-



tion a core competence should ensure that HR builds this objective into its recruitment strategy. They should put the emphasis on finding and developing people with the 'right stuff.'

Once people get through the screening and hiring process, the goal is to develop their innovation talents through training. Remember, GE became famous for its world-class leadership development. What is to stop your company becoming famous for developing world-class innovators?

Processes and tools

Clearly, the right tools and processes make a big difference to what we can achieve in every aspect of life. Innovation is no exception.

Companies often ask themselves why success at innovation continues to elude them; why their efforts to brainstorm seem to yield so little in the way of radical new ideas; why they have such a miserable record at turning promising ideas into commercialised businesses.

One of the answers is this: these companies are asking their people to innovate, but they have not yet equipped them with the tools and the processes that are critical for making innovation happen.

In our work, we strive to help organisations develop tools and processes that can enable them to:

- ❖ continually discover novel strategic insights for stimulating idea generation,
- ❖ make innovation everyone's job by engaging ordinary employees in the generation of ideas process,
- ❖ systematically innovate across the entire business model to identify new opportunities for growth,
- ❖ construct an innovation architecture that brings coherence to a large portfolio of ideas and strategic options,
- ❖ rapidly redeploy resources behind promising new ideas,
- ❖ manage a pipeline of opportunities from nascent ideas through to market experiments and 'close to launch' businesses,
- ❖ measure ongoing innovation performance (inputs, outputs, throughputs, leadership engagement, progress at innovation embedment),
- ❖ dynamically balance innovation supply and demand.

To a great extent, making innovation a self-sustaining capability is about using tools and processes like these in a systemic and mutually reinforcing way.

Culture and values

Most corporate cultures don't foster innovation; they get in the way of it. When we talk to successful innovators in large companies, we usually hear a familiar story: "I succeeded despite the system."

If would-be innovators can only succeed

in an organisation despite the system – if they have to fight their way heroically through a minefield to push their ideas forward – then by definition innovation is not a systemic capability in that organisation, neither is it a core value that is deeply ingrained in the corporate culture.

The fact is, many companies list innovation as a core value in their corporate mission, but subconsciously reinforce a culture that inhibits it. When these companies refer to innovation as a 'value,' most of them are using the wrong term.

If an organisation has not yet succeeded in making innovation a truly tangible core value for all its employees, the leadership team should be calling innovation an 'objective' or a 'commitment', not a 'value.'

Talking about innovation – using it as a slogan in an advertisement or on a corporate letterhead – does not make it a value. Values are less about what you say and more about who you are.

They define the beliefs an organisation holds deep down about what is important and right and they drive the way its people behave on a consistent basis. It is absolutely crucial to make this distinction.

For innovation to become a genuine value, it has to be deeply internalised and clearly tangible to an organisation's employees.

It becomes the net sum of a whole variety of messages and behaviours. In fact, in many ways, it is not really something a company can work on directly; it is something that comes from addressing all of these other issues.

Innovation can only become a true value in a company through collective learning across all its levels, functions and businesses, usually over a considerable period of time.

People need to not just hear that ideas are welcome 'from everyone and everywhere' or that rule breaking and risk taking are encouraged or that ideas are allowed to fail without incurring punishment, they need to experience these things every day.

That is when a corporate value becomes tangible enough to guide patterns of behaviour across the entire organisational culture.

Making the cultural transition

The reason very few organisations have so far succeeded at building a deep, ongoing capacity for innovation is that most of them merely dipped their toes into the water, initiating piecemeal activities here and there and hoping that by throwing some money at these initiatives they would somehow bear fruit.

They never dived into innovation in a serious and systemic way, working hard to embed it as a core competence that permeates the entire organisation and that

eventually becomes part of the DNA of a company.

To make innovation truly happen, people throughout the company need to understand that it is not just a corporate initiative or a one time project or an activity for a particular group of people.

They need to recognise it as something that has to permeate the entire organisation – something that requires different mindsets, values, skills, behaviours, processes, management systems, metrics, rewards and organisation structures, IT solutions and so on, right across the enterprise.

They need to grasp the fact that for innovation to really work and to be sustainable, it has to become a systemic and widely distributed capability – it has to be woven into the everyday fabric of the company just like any other organisational capability such as quality or supply chain management or customer service. Innovation has to become a way of life for the organisation.

Making such a profound cultural change requires time, money and commitment. But the message is that it can be done. If gigantic, 100 year old corporations – like GE and Procter and Gamble – have taken on this challenge and are already achieving extraordinary results, your company can do the same.

Again, the quality movement sets an encouraging precedent. Organisations all over the world have demonstrated that creating and managing 'zero defect' quality systems is well within the realms of human capability.

Therefore, we see no reason why tomorrow's corporate innovation systems shouldn't become just as sophisticated – and just as commonplace.

Finally, to be frank, you don't have any other choice. There is no plan B. If your company is not making a serious and concerted effort, right now, to drive innovation to the core, your days are numbered.

Biggest challenge

The biggest challenge facing companies today – in a world of hyper acceleration, hyper competition and hyper commoditisation – is to change as fast as the environment is changing around them; to find new sources of profit before the old ones disappear and to reinvent their strategies and their business models before they become obsolete.

Organisations that are not positioned to meet this challenge by virtue of their capacity for innovation will have a very, very difficult time. Simply put, the faster your company builds a high performance corporate innovation system the better.

It will prove to be the ultimate and most decisive competitive advantage in the new innovation economy. ■