

# Building a Climate for Innovation

BY SUSAN DUNN AND CHRISTINA MOTT

The key to successful innovation lies in creating a vision and strategy and then empowering and developing the leaders to develop the process necessary to carry it out.

Many leaders are frustrated with their organizations' ability to innovate.

During the past few years, Oliver Wyman Leadership Development has convened roundtable discussions among senior leaders that focus on innovation and have heard the same discussion several times over.

One leader said, "We've asked people to get creative and think out of the box, but we're still not getting the innovation we need to drive our top line. We need a better set of ideas in our pipeline and more creative people to get us there."

Another leader at the table said, "If only that were enough. In our organization, you can't walk 5 yards without bumping into creative people. Ideas pile up by the truckload, but we have yet to make an innovation breakthrough."

A third leader in the group admitted to facing the same disappointments and named the elephant in the room that they all worried about: "We can't keep telling the analysts we're going to generate organic growth and then not follow through. If we can't figure this out, we need to stop setting the expectation that we'll innovate our way to growth."

The discussion typically ends with the leaders posing three key questions. Is innovation essential to business growth? If so, what's getting in our way? Going forward, how can we be more successful with innovation?

Innovation is not something a growing business can ignore. Although the topic of innovation has been gaining momentum during the past decade, it recently has taken on a new urgency. Whereas the average revenue growth was 10-15 percent in the 1990s and down to 1-3 percent early in the millennium, in today's economic climate, just remaining flat seems like a pipe dream for many companies. But even in the toughest times, there are opportunities for innovation and growth.

Acquisition, however, is not a substitute for innovation. Many leaders underline the fact that "you get what you pay for." An organization that has already innovated and has low-risk, upside revenue potential is sold at a premium. That's why the only way to be paid for innovation is to do it yourself. Innovation is the only option because companies can't get both top- and bottom-line growth through acquisitions.

## Cultural Climate

A conducive organizational climate is a condition for innovation success. To shed light on this challenge, Oliver Wyman and the Economist Intelligence Unit surveyed approximately 300 executives worldwide in 17 industries. Survey participants were asked what gets in the way of innovation success in their companies. Responses indicated that the major barrier was the lack of a conducive climate (Figure 1).

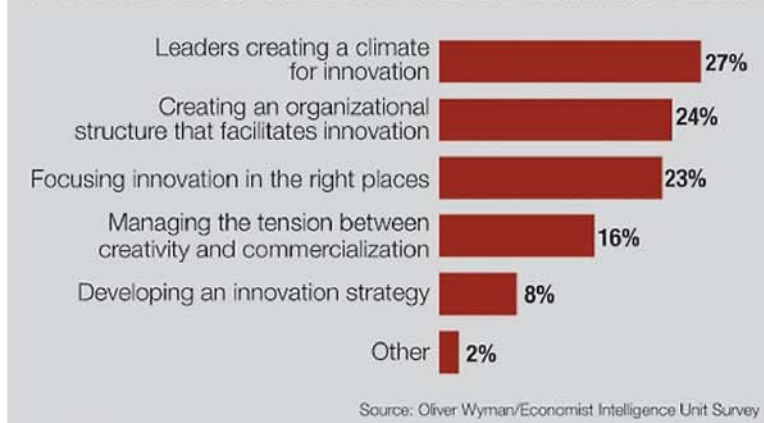
Survey participants were then asked what specifically is necessary for an organizational climate to be conducive to innovation success. Responses indicated that six dimensions are required for innovation to thrive (Figure 2).

## Proactive Leadership

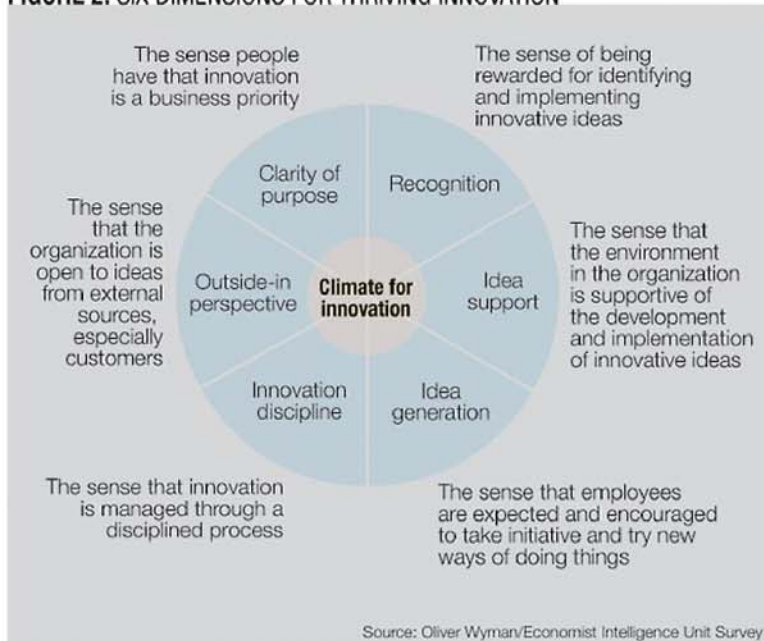
The research indicated that building a climate with these six dimensions requires proactive leadership. Survey participants were asked the question, "Where do you see the biggest need for change inside your company so that your firm can become more innovative?" The most common response — more than strategy, structure or processes — was leaders. This is not surprising considering how infrequently respondents said the leaders in their companies display specific innovation behaviors (Figure 3).

Fewer than half of the leaders establish clarity of purpose and create an open and supportive environment. That means that more than half don't create the right environ-

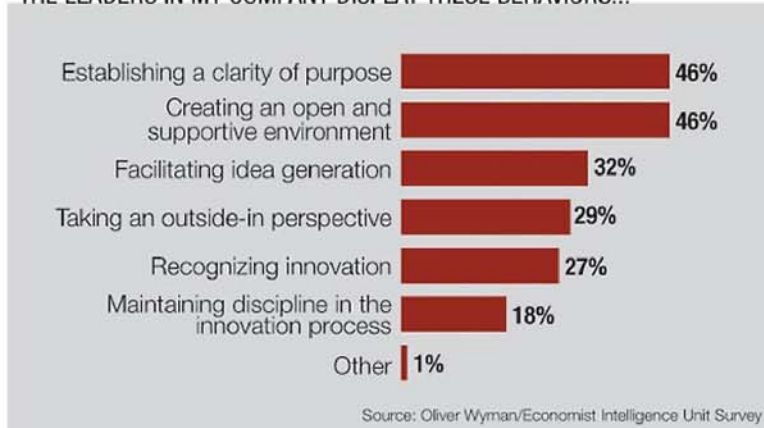
**FIGURE 1:**  
 "WHAT IS THE GREATEST CHALLENGE TO DELIVERING BUSINESS RESULTS?"



**FIGURE 2: SIX DIMENSIONS FOR THRIVING INNOVATION**



**FIGURE 3:**  
 "THE LEADERS IN MY COMPANY DISPLAY THESE BEHAVIORS..."



ment. In addition, 73 percent don't recognize innovation and 82 percent don't maintain discipline in the innovation process. The bottom line is that, although innovation is a decisive element in a company's growth agenda, there is a significant shortage of leaders who do it well.

On the flip side, there is a recurring theme with successful leaders who do create a climate that supports innovation. While executive leaders set the strategic direction and shape the organizational climate for innovation, mid-level leaders translate and execute the strategy and reinforce the climate with their teams and those below. Figure 4 lists, by dimension, the practices of leaders who have driven successful innovation.

At Cisco Systems, for example, leaders leveraged these practices to successfully embed innovation into the organization. Company executives developed a clear plan for bringing new products to market. The vision of changing the way they work, play and learn overrides all other considerations.

To gain an outside-in perspective, leaders constantly talk with customers, not about technology but about how people can elevate their game by managing the human dimension around their businesses. They also rely on constructive disagreements to generate new ideas while creating a supportive environment of open communication and teamwork. Finally, they maintain discipline in the innovation process by moving new ideas through a concept-commit-execute framework.

Cisco has created a climate for innovation that enables it to be a market leader, but also to live up to its promise of enabling others to leverage the "human network effect" and position themselves for the future. Cisco's leaders, starting with CEO John Chambers, make it known to everyone how essential innovation is to the company.

Leaders whose organizations are not achieving sufficient results from their innovation efforts are looking for tangible ways to move forward. They should self-assess their current leadership behaviors against the list of successful practices and identify practices that are missing or inconsistent.

Some of the six dimensions have more impact on innovation effectiveness than others. Further analysis of the research data shows that, of all of the climate dimensions, clarity of purpose is the most significant predictor of the overall climate outcome.

To create clarity of purpose, leaders must communicate a clear vision and strategy, make innovation a business priority and establish specific plans to achieve it; make identification and implementation of innovation ideas a top priority; and encourage people to improve business models and processes, as well as products and

**FIGURE 4: LEADERSHIP PRACTICES THAT DRIVE INNOVATION**

	EXECUTIVE LEADERS	MID-LEVEL LEADERS
Clarity of purpose	<ul style="list-style-type: none"> <li>• Communicate a clear vision and strategy for the business/organization.</li> <li>• Make innovation a business priority and establish specific plans to achieve it.</li> </ul>	<ul style="list-style-type: none"> <li>• Make the identification and implementation of innovative ideas a top priority.</li> <li>• Encourage people to improve business models and processes as well as products and services.</li> </ul>
Outside-in perspective	<ul style="list-style-type: none"> <li>• Stay abreast of changing industry and market conditions.</li> <li>• Create opportunities for people to share customer and market knowledge across the organization.</li> </ul>	<ul style="list-style-type: none"> <li>• Make decisions based on in-depth understanding of customer expectations.</li> <li>• Recognize the value of bringing together people with different opinions and points of view.</li> </ul>
Innovation discipline	<ul style="list-style-type: none"> <li>• Sponsor the integration of innovation processes into existing and new business processes.</li> <li>• Create forums for leaders to share ideas and information with cross-organizational units.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop thorough and realistic business plans and processes for translating ideas into actions.</li> <li>• Make tough decisions when it comes to allocating resources.</li> </ul>
Idea generation	<ul style="list-style-type: none"> <li>• Encourage innovation and calculated risk taking on the executive team.</li> <li>• Model behaviors that lead to candor, openness, and the healthy debate of ideas.</li> </ul>	<ul style="list-style-type: none"> <li>• Give people time and resources to pursue new projects.</li> <li>• Challenge people to consider alternative approaches to traditional ways of doing things.</li> </ul>
Idea support	<ul style="list-style-type: none"> <li>• Create and support opportunities and establish ways to fund “big ideas.”</li> <li>• Remove obstacles to the implementation of new ideas.</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct team meetings in a way that builds trust and mutual respect.</li> <li>• Seek creative ways to resolve conflicts.</li> </ul>
Recognition	<ul style="list-style-type: none"> <li>• Create systems that support people’s pursuit of innovative new ideas.</li> <li>• Recognize and reward team performance as well as individual performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Reward people for experimenting with new approaches rather than criticizing them for mistakes.</li> <li>• Relate rewards to performance, rather than other factors (e.g., seniority, personal relationships).</li> </ul>

services. A.G. Lafley, Procter & Gamble’s CEO, did exactly that by setting a goal of going outside to find half of all the company’s innovations and implementing a connect-and-develop strategy.

**Shift Values and Priorities, Then Develop Skills**

At a first glance, each of these practices seems straightforward. So why do some leaders incorporate them into their work while others do not? This question has become an important area of inquiry for CLOs. To help move their organizations’ innovation agendas forward, they want to know how they can help leaders embrace these climate-creation practices.

Skill is rarely the issue. Leaders who have not embraced the leadership practices that support innovation and made them a part of their repertoire typically do not value innovation. Often, these managers see innovation as something that happens in the lab.

The challenge for CLOs is to help these leaders reframe their view and treat innovation as they would any other core business process. They need to help leaders see innovation as a key discipline that can be developed and managed.

CLOs who facilitate this transformation successfully opt to leverage real-time learning. They begin by creating opportunities for leaders to receive feedback from

their teams around the fit of their current climates with the six dimensions required for innovation success. Once the leader has focused in on two or three climate gaps, the CLO provides support, typically through coaching, to translate these insights into leadership actions.

Other steps that can help leaders embrace practices that support innovation include mentoring by the company’s senior leaders who have achieved innovation success or, where this is not possible, providing a scan of external best practices. Many leaders benefit from the motivation that comes through connection with peers wrestling with the same issues.

Failure to innovate can put an organization at risk and diminish its ability to sustain or gain competitive advantage. Fortunately, this challenge can be met if companies realize that their ability to innovate is inextricably linked to their leaders’ ability to establish a climate for innovation. Even in mature industries, leaders successfully build the innovation engines necessary to sustain profitable growth by focusing their leadership development on creating a climate for innovation. **CLO**

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