

CREATING A CULTURE OF INNOVATION

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How do great companies make innovation happen? The most fundamental factor is culture. The world's best structures will under-perform without a culture that supports people trying new things.

The founder and CEO of Silicon Valley's Cypress Semiconductor, TJ Rodgers, once commented to one of the authors, "Values are the things you get for free." As his assertion seems counter-intuitive, Rodgers clarified. Nurturing the right values at a company is not free. Instead, whatever values a company's culture actually has will manifest themselves in the actions of its people.

Values, and the larger rubric of culture, have a similar impact on the way a company innovates, or fails to do so. Those that truly value people creativity will act on their ideas, or at least give them a fair hearing. Companies that focus like a laser on their core businesses will intentionally or unwittingly reject innovators and compromise company viability.

One dysfunction of many organisations is what we call guilty until proven innocent. Perhaps you or your colleagues have experienced sharing a new idea, only to receive a response like, 'it will not work' even before people have explored it.

Scepticism of new concepts in established enterprises is understandable. The downside of focus is myopia. As Joseph Schumpeter taught us a century ago, in a competitive marketplace, if your company does well, others copy you and eventually profit vanishes. Innovation is the only way to achieve long-term profitable growth in competitive environments.

So, how can we engender a culture supportive of innovation? We have explored this question in some depth with our colleagues in Kellogg Innovation Network (KIN), a group of innovation leaders at global companies, hosted by Kellogg School of Management. Here are a few of the insights we have learned from them over the years.

Nurture a sense of purpose: Successful, innovative companies can be built upon an extreme focus on a particular commitment. Rackspace Hosting, a billion dollar US company offering internet hosting, cloud computing, etc., has developed a culture around fanatical customer service. Nearly all companies in the technology industry compete primarily on cost. Rackspace took a contrary approach. Its business model and culture are dedicated to offering better and faster service than anyone else in their industry. The mantra of fanatical support permeates at all levels. For instance, when a customer calls Rackspace's toll-free number, a real human being answers the phone. The company receives a premium price for its offerings in what others consider a commodity business. The German camera and binocular company, Leica, revolutionised photography in 1925 with the 35mm camera and remained a global leader in optical technology throughout the 20th century. The introduction of the digital camera posed a serious threat to Leica, and its 100-year focus on making the world's best optical lenses compelled them to innovate around this optical core, and its cameras are once again preferred by many professionals worldwide. Nonetheless, companies must practice both commitment and flexibility. In 1990s, Kodak boasted an early lead in digital photography technologies, but failed to implement them for fear of compromising their dominant position in analogue photography. Other companies took the lead and Kodak eventually encountered a near-death experience. While Leica remained committed to a capability that could change over time, optical excellence, Kodak committed to a business on its way to obsolescence.

Operate as an ethical alternative: Focusing on a purpose of significant social merit can have a compelling impact on culture. Many companies have business models based on offering an ethical alternative. Body Shop's products adhere to strict

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INSIGHTS FROM KELLOGG INNOVATION NETWORK

- 1. Nurture a sense of purpose**
- 2. Operate as an ethical alternative**
- 3. Celebrate smart failures**
- 4. Create meaningful actionable objectives and enable people to act**
- 5. Emphasise the team, not only the individual**
- 6. Walk the walk, do not just talk the talk**



ethical rules regarding non-animal testing, supporting community trade, and protection of the planet. Norway's Cultura Bank follows a similar path in financial services, lending only to projects which contribute to cleaner air and water, social justice, and community building. It provides an example of what Muhammad Yunus refers to as social business - an entity with a financially sustainable business model that provides products and services, but focuses on a mission of social value. The demands of achieving a social mission while also competing successfully as a business rather than a charity (*for-profit or not!*) encourage a culture open to new approaches.

Celebrate smart failures: At many organisations, if something fails, people try to hide it. If the cover-up fails, they start blaming others. The best companies take the opposite approach. They understand why the failure happened without blaming, and communicate what they have learned so others can avoid similar outcomes. Google excels at celebrating successes while accepting failures as part of the game. When Sheryl Sandberg, Facebook's COO, worked for Google, she pursued an innovative concept that eventually failed, costing Google millions of dollars. She went to inform co-founder Larry Page and apologised, who apparently responded, "I'm glad you made this mistake. I want to run a company where we're moving too quickly and doing too much; not one being too cautious and doing too little." An anecdote from BMW expresses a similar approach. Some years ago, a senior engineer offered his resignation when a million euro programme he was leading ended in failure. BMW's leadership requested he stay, given the knowledge he had obtained as a result. The engineer had achieved what we know as "smart failure." The manager and his team had evaluated precisely what had happened, how they could avoid repeating the mistakes, and shared those insights.

Create meaningful actionable objectives and enable people to act: Inspiring challenges can nurture an innovative culture, if people are given the support necessary to act. The objective of the One Laptop per Child (OLPC) programme launched at MIT was to create a laptop for USD 100 accessible to children worldwide. Despite early setbacks, the team eventually

achieved a product for under USD 200 highly adapted for use in developing countries. OLPC's success motivated others like Microsoft and Intel to pursue similar products for emerging markets. When Tata Motors launched the Nano, it did not just introduce a more affordable car. CEO Ratan Tata directed his team to create a car for under USD 2000 USD. To achieve this, Tata had to innovate not only on the product, but also on assembly and delivery. The Nano means that billions of people might sooner aspire to auto ownership. Both examples illustrate how meaningful objectives with significant constraints can inspire your people and lead to creative solutions.

Emphasise the team, not only the individual: Many people believe in the cult of the innovator, the lone visionary who generates breakthrough ideas. While some are naturally more creative, even the world's top innovators, like Steve Jobs or Muhammad Yunus, require teams of people and capabilities to take ideas to market. Further, ideas typically transform many times before market success, and typically through collaboration. Make sure you celebrate the individual and the team, otherwise you run the risk that people will fail to support others' initiatives for fear they will fail to be recognised themselves. "Innovation is tough, it takes a thick skin," explains Toby Redshaw, Global CIO of Aviva plc, and Founding Chairman of KIN. "You better celebrate innovation successes a lot. You'd be surprised how motivating it is for people when a top executive recognises them for converting hard work into something new and successful; the great thing is it does not cost much to make people look great to their peers."

Walk the talk, do not just talk the talk: Hypocrisy is one of the most powerful ways to generate a dysfunctional culture. If leaders do not find time to encourage new initiatives, others will not either. As one of our executive colleagues put it, "If you are not committed to the journey, do not even start." As Apple's visionary CEO Steve Jobs put it, "The only thing that works is management by values. Find people who are competent and really bright, but more importantly, people who care exactly about the same things you care about." Ultimately, what the CEO values, with actions more than words, will be what a company's culture provides. 