People and innovation

Getting ideas on the table
IBM Institute for Business Value

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.
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These days, everyone can attest to the importance of being innovative. In a knowledge economy where small insights can quickly shift the competitive landscape and capabilities can rapidly be bought, borrowed or built, we believe that those leaders who oversee a dynamic, fast-moving, innovation portfolio will have the best chance of breaking away from the pack and generating growth. But many organizations are finding it difficult to engage their people – from their employees to their customers to their suppliers – in the innovation process. If this is the case, then where do they start?

Introduction
Top business leaders believe that innovation – more open, collaborative, multidisciplinary and global than ever before – is the key to business survival in the 21st century. In 2006, IBM conducted the Global CEO Study to better understand how CEOs are addressing innovation in their organizations. Among its findings, CEOs cited an unsupportive culture and climate as a top barrier to innovation.

To address the critical problem of how organizations can eliminate barriers to innovation and make improvements to the culture and climate, the IBM Institute for Business Value has followed the Global CEO Study 2006 with a detailed analysis to better understand how organizations can mobilize their most important assets – their people, customers and suppliers – to more effectively innovate in today’s business environment.

It’s essential that executives in key roles lead the way to create an innovation-friendly work environment. In addition to offering incentives and rewards, leaders need to set the right perceptions about risk-taking, infuse diversity into the organization, capitalize on internal networks and improve external collaboration. This paper serves as a guide to those forward-thinking executives whose sights are set on doing just that.
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Pinpointing the barriers to innovation

“CEOs instinctively understand the need to play a prominent role in establishing an innovative culture. But they are not always certain how to go about it.”

– Global CEO Study 2006 participant

The Global CEO Study 2006 defined innovation as the use of new ideas or current thinking applied in fundamentally different ways that result in significant change. This covers a broad view of innovation, including the development of new products, services and markets, improvements to existing operations, and the creation of new business models.

CEOs who participated in the Global CEO Study 2006 are eyeing a much wider innovation horizon to meet today’s competitive challenges. However, CEOs cite an unsupportive culture and climate as a critical roadblock to achieving breakthrough levels of innovation (see Figure 1). Many CEOs are concerned that the inability to motivate and support people who have good ideas can effectively derail a greater corporate focus on innovation.

Recognizing this as a critical issue, we set out to identify the key components of an organizational culture that supports innovation, highlight the human capital management practices that foster an innovative environment and better understand the roles that senior executives can play in enabling innovation from a people perspective.

To accomplish this, we reviewed relevant literature to understand and build upon existing innovation theory, models and practices; performed detailed analysis of results from the Global CEO Study 2006, including additional assessment of raw data and interviewee responses; and conducted interviews with senior research, innovation and HR executives from 20 companies looking to improve their effectiveness as innovators.

FIGURE 1
Critical roadblocks to successful innovation.

<table>
<thead>
<tr>
<th>Percent</th>
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<tbody>
<tr>
<td>Unsupportive culture and climate</td>
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<tr>
<td>Limited funding for investment</td>
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<tr>
<td>Government and other legal restrictions</td>
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<tr>
<td>Workforce issues arising internally</td>
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<tr>
<td>Process immaturity</td>
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<tr>
<td>Economic uncertainty</td>
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<tr>
<td>Inadequate enabling technologies</td>
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<tr>
<td>Inflexible physical and information technology infrastructure</td>
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<tr>
<td>Insufficient access to necessary information and data</td>
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<tr>
<td>Workforce issues arising externally</td>
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<tr>
<td>Other</td>
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Source: IBM Global CEO Study 2006.
As a result of our analysis, we recommend that organizations focus on a two-stage, seven-step model to start eliminating the barriers to innovation and create a more innovative environment (see Figure 2).

### Stage one: Setting the stage for innovation
- Paint a picture for your people that provides strategic context, both giving direction and setting boundaries for innovation.
- Stamp out fear by creating a culture that embraces risk and eliminates the stigma associated with failure.
- Value and leverage the ideas residing within the diverse cadre of your employees.

### Stage two: Taking action
- “Connect the dots” within your organization by understanding and leveraging the informal networks that can improve innovation effectiveness.
- Collaborate with external organizations, including partners and suppliers, and with customers to complement existing competitive advantages, speed up time to market, or spark new insights.
- Make ideas visible using a variety of practices designed to elevate ideas from all corners of the organization.
- Provide incentives and recognize your people’s innovativeness through programs that carefully complement both the passions that drive employees and a well-crafted organizational vision.

**Setting the stage**

“Leading, setting direction, laying the cultural groundwork that stimulates innovation – it’s essential work for a CEO.”

—Global CEO Study 2006 participant

Large organizations do not just change course at the drop of a hat. Leaders need to set the stage for an innovation movement by providing context, supporting informed risk taking and encouraging diversity.

**Paint a picture for your people**

Setting the stage means more than just endorsing innovation as a concept or mentioning it in speeches and letters to shareholders. For the past two decades, employees at most large organizations have witnessed relentless cost-cutting, a deep focus on productivity and efficiency, continual merger and acquisition activity, and the movement of once-prized jobs to outsourcers or offshore.

In this atmosphere, organic growth fueled by risk-taking and innovation has been out of fashion. In many cases, employees have seen too many careers stagnate or end altogether from failed initiatives. In such atmospheres, caution usually prevails.

For CEOs to stimulate innovation, they need to build a compelling case for change grounded in the financial realities of the company and its competitive position that will get employees...
excited about risk-taking again. And they need to constantly communicate that case to their skeptical charges, especially if past initiatives faded due to a lack of strong leadership and commitment. At large companies in particular, the battle for the hearts and minds of employees can be long, but it is vital if the stage is to be set.

As one vice president of a global consumer goods company told us, “True leadership is the ability to provide guidance that is broad enough to encourage people to expand themselves and their efforts and also to conform to the needs of the corporation.”

Stamp out fear

Our interviewees tell us that many would-be innovators take a skeptical view when leaders begin touting innovation. For one, fancy speeches notwithstanding, people simply don’t believe that they have the freedom to fail within their company – hence, they are inclined to participate only in projects that they believe are safe. While many people would love to play a part in projects that could generate breakthrough results, they’ve seen too often the career damage that can occur when those projects fail.

Second, people don’t believe that the intelligent pursuit of risk is valued by the company. While many leaders may talk a good game, their intentions are often derailed by the efforts of overly-cautious bureaucrats and turf warriors who hold would-be innovators at bay or punish informed risk taking that fails.

Finally, people perceive their leaders as being too short-term focused, lacking both the financial commitment and courage to stake their careers on long-term “game-changing” convictions. Leaders who lack the courage of strong convictions tend to lead people who are hesitant to invest themselves personally in innovation initiatives.

Paint the picture: Key takeaways

Build your case for change around innovation
• Communicate your commitment to innovation constantly, using multiple channels including intranet sites, town-hall meetings and recorded phone messages.
• Make it personal, building enthusiasm through face-to-face conversations, small group meetings or personal hand-written notes.

Provide market orientation
• Help people to understand the “why” of your innovation strategy by explaining the organization’s competitive landscape.
• Update employees frequently on their competition, such as one telecommunications company that sends a competitive landscape e-mail every other week to its top 750 people.

Establish innovation boundaries
• Link innovation efforts to strategic initiatives and continually connect those efforts to the big picture.
• Balance giving your innovators the freedom to dream big dreams with the need for practical products and services that meet marketplace needs.
Stamp out fear: Key takeaways

Recognize “near misses” and “losers”
- Recognize people for well-executed risks – even if the result was unsuccessful.
- Value and recognize project execution – from conception through completion – not just the outcome.

Develop methods for learning from mistakes
- Talk about your losers and winners in project reviews. If an innovation failed, what went well in the process? Who displayed innovativeness? Collaboration? Leadership?
- Turn failures into case studies by using them in structured learning activities.

Make “stars” out of risk takers and innovators
- Promote “idea people” and risk takers to highly visible roles to show that innovation is as important as more traditional metrics like sales or profit margin.
- Reward and celebrate innovators who get it right the second time, casting earlier failures as part of a growth continuum.

Reduce the cost of experimentation
- Use many smaller, inexpensive trials to reduce the risk associated with any single idea.

Value and leverage diversity
People of all ages and experiences comprise today’s large multinational corporation. They come from different demographics, perform different jobs, represent different cultures, and know different people both inside and outside of the company (see Figure 3). On the one hand, they are your employees, but on the other, they represent your customers – some your core customers, others your strategic target markets.

Your employee population represents a rich mine of diverse knowledge and ideas, and they stand ready to volunteer that information. As one senior vice president of a telecommunications company told us, “Similar people with similar thoughts give you ‘group think’… We want different perspectives: age diversity, ethnic diversity and experience diversity.”
Encourage diversity: Key takeaways

Build diverse leadership teams
- Choose global leaders who will infuse diversity of thought into the highest levels of strategic discussion.
- Promote institutional values that reflect the global nature of leadership and represent differing points of view.

Infuse diversity into innovation teams
- Ensure that your workforce reflects your customer segments. Develop mechanisms for capturing ideas about how to influence their buying habits.
- Create diverse tactical teams to initiate and debate ideas vital to the innovation projects needed to drive corporate strategy.
- Enable technology (such as virtual meetings and instant messaging) to promote idea exchanges among diverse minds throughout the world.

Link successful innovations to diversity
- Show through rewards and recognition that ideas and their diverse origins are valued by leadership and considered a key to strategic implementation.
- Publicize innovation implementations and the diversity inherent in those innovations.

Setting the stage for an innovation initiative is not easy. Depending on current business conditions, the number of other initiatives a company has been through, and the way that those initiatives were managed, skepticism may pervade the organization. That's why leaders must relentlessly communicate the strategic context for the innovation initiative, prove that they desire risk-taking and tolerate “smart” failure and design the right programs for leveraging diversity.

Taking action
“Ideas should bubble up from everyone who gets a paycheck at this company. They should all be able to offer ideas, even the person who changes the trash bags… it doesn’t happen here. And even when there are good ideas, often you hear, ‘Oh, we did that once before. It didn’t work.’ That’s got to stop.”
– Director of Leadership Development, global insurance company

In a knowledge economy where small insights can quickly shift the competitive landscape and where capabilities can rapidly be bought, borrowed or built, we believe that those leaders who can oversee a dynamic, fast-moving, innovation portfolio will give themselves the best chance of breaking from the pack and generating growth. To do so, they will need to get innovators working together within their organization, reach outside and collaborate with others, make ideas visible with enabling processes and technologies, and provide incentives and recognition for their top performers.
“Connect the dots” within your organization

In any large company, individuals and groups take on informal roles that – when understood and leveraged – can improve innovation effectiveness. From key connectors who, regardless of title or job description, seem to know everyone and can get the word out about an innovation project, to isolates whose knowledge is not well known to others, there’s a “hidden” organization within any organization that can be tapped via enabling technologies.

As the sample network map in Figure 4 shows, when seeking to quickly launch a cross-functional innovation project, Sam would be a good person to leverage because of his wealth of contacts across business units. Carla, on the other hand, may have vital knowledge that is not known by others, but unless she can be brought into the network, she will not make what could be a critical impact on the project. Too often, teams are staffed with little consideration of such informal capital.

FIGURE 4. Understanding informal roles can improve innovation effectiveness.

By better understanding informal networks, leaders can help the company avoid common problems that inhibit optimal innovation. Rob Cross at the University of Virginia, Andrew Hargadon at the University of California at Davis and Salvatore Parise at Babson College identify a number of potential problems in a recent white paper, including:

- **Fragmentation** – Individuals across business units, geographies or other divisions are working on similar issues, but are unaware of each other – potentially leading to redundancies or underutilized insights

- **Domination** – A few individuals in a network hold a disproportionate influence over decisions, potentially leading to a rejection of new ideas and approaches

- **Insularity** – Individuals within the network have few connections outside of the network, potentially leading to a dearth of new ideas being infused into the group.

To avoid these problems, organizations can influence their informal networks at several levels. At the organizational level, the development of metrics to promote teaming can more easily bring together the best and the brightest from different functions or business units. The use of forums, such as knowledge fairs and training courses, can also help build connections that are critical to the flow of new ideas across the organization.

However, more companies are starting to see the value in understanding informal networks, and new techniques and technology now are enabling detailed network analyses. As one vice president of research for a consumer products company told us, “The network stuff provides just a whole new level of insight…it really helps predict performance, for instance…it is scarcely accurate.”

Organizations that analyze, encourage and enhance informal networks can benefit from using the resulting knowledge to foster innovation.
At the team level, organizations can focus on making sure that projects are staffed by individuals from different functions and even different backgrounds. Also, teams may serve to engage those new to the organization or whose knowledge is underutilized in their normal roles.

Lastly, at the individual level, mentoring programs and rotational assignments may help increase the visibility of people with good ideas, and encourage the flow of ideas across functions and business units.

Connect the dots: Key takeaways

Understand your informal social networks
- Use social network analysis techniques to better understand – and increase the visibility of – social networks.
- Identify individuals playing vital, though informal, innovation roles, such as key connectors.

Encourage and enable community
- Foster the development of communities of practice around key topics and disciplines.
- Provide opportunities for individuals to interact and increase the level of knowledge visibility in the organization.

Enable networking technologies
- Increase the use of technologies that facilitate network development, such as expertise location and instant messaging.

Reach outside and collaborate

More and more, winning in today’s marketplace has to do with effectively mobilizing resources to deliver value – and doing it fast. Sometimes, a leader will be able to bring an innovative idea to market through internal teams or individuals with the world-class capabilities that customers demand today. But increasingly, leaders must look both inside and outside to bring together the right blend of world-class capabilities before their competitors can do the same. In this environment, a competitor on yesterday’s initiative might be a collaborator today and become a competitor again tomorrow.

As such, our participants highlighted trust, intellectual property management and opportunities for mutual gain as three critical issues in managing external collaboration. Said a senior vice president of one technology company, “You have to be part of a trusting ecosystem. You need to trust them about shared intellectual property, (and develop) win-win scenarios with your partners.”

Over 75 percent of CEOs that took part in the Global CEO Study 2006 indicated that collaboration and partnering are very important to innovation (see Figure 5). However, actual implementation is considerably lower, with only half of CEOs surveyed believing their organization to be collaborating beyond a moderate level. This collaboration gap is largely the result of a lack of the expertise needed to partner externally. Our research shows that the gap also results from cultures that are resistant to external collaboration.
Another collaboration trend relates to customers. Over 35 percent of CEOs participating in the Global CEO Study 2006 cited customers as one of their most significant sources of innovative ideas. As part of this trend, companies are beginning to use social networking to communicate with customers on a wholly new level. For example, innovative companies like Biogen are using virtual communities to interact with their customers in new ways.

Biogen's Multiple Sclerosis (MS) virtual community, Avonex.com, has access to over 10 percent of U.S. MS patients. Through its Avonex.com community, Biogen invites MS patients to try their drug Avonex, integrates existing and potential customers with sales and marketing and customer service functions, offers samples and views to over 30,000 current and future customers, and makes customers an integral part of Biogen's business.

The collaboration trend is in a relatively early stage of development, but will remain critical to achieving enduring success. Our interviewees recognize that getting people positioned to innovate through collaboration is an important requirement that, in many cases, goes against traditional “go it alone” organizational cultures.

**Reach outside: Key takeaways**

**Develop relationships and establish boundaries**
- Foster the development of commercial relationships through initial face-to-face interactions.
- Engage customer communities by leveraging emerging Web technologies.
- Be clear upfront about knowledge exchange and intellectual property guidelines.
- Specify the learning objectives for each party.

**Create an internal partnership management capability**
- Manage the institutional knowledge created or used in multiple partnerships.
- Develop a positive reputation as an external partner in the market.
- Develop internal mechanisms for coordinating relationships across partnerships and with customer communities.
- Create assessment criteria for measuring partnership performance on an ongoing basis.

**Balance the portfolio of partnerships**
- Determine how collaborating with one organization will potentially impact other relationships and make strategic decisions accordingly.

**Make ideas visible**

It goes without saying that large companies looking to add to multi-billion dollar revenue bases may tend only to focus on innovations that can potentially contribute tens or even...
hundreds of millions of dollars in new revenues within a reasonable time frame. Who are the market seers who can foresee those breakthroughs? Some of our interviewees believe that this falls to those few whose roles allow them an unparalleled breadth of knowledge about the organization.

One senior vice president for a global technology company sums up this viewpoint by commenting, “Involving everybody in innovation is hard because the kind of problems we have at our company are complex integration problems. They are hard to solve unless you have people who understand all aspects of it, but there aren’t too many of those people… the fact is that we’re trying to solve complex integration problems in a holistic way, and that’s just not easy to do.”

Other interviewees see just the opposite, believing that large organizations require as many diverse ideas from as many corners of the organization as possible. These interviewees see every person within the company as critical to an idea-generating process that is wholly dependent on the numbers and the diversity of ideas.

According to a senior vice president of human resources and leadership for a large U.S. retailer, “My view of innovation is that in order to get an idea that is going to be a money-maker, you need to increase the number of ideas…Getting enough ideas and enough diversity in those ideas is what gets you to have any chance of success. Part of the challenge is how to get the number of ideas up by tapping into 128,000 employees and start taking advantage of that.”

Our research suggests that both statements are grounded in a greater truth captured by the senior director of HR operations for a global pharmaceutical company. “I think the accumulation of a lot of great ideas at the base of the pyramid does contribute to success at the top, if those ideas are tied to the strategy.”

Make ideas visible: Key takeaways

Take advantage of cross-functional teams
- Create team charters and time limits to encourage focus and require deliverables that encourage both creativity and practicality.
- Build diverse teams of relevant stakeholders to spark creativity and enhance organizational networks.

Encourage and leverage communities of practice
- Use authentic exchanges among people with common passions to solve problems and spark ideas, and then implement the best.
- Periodically bring communities of practice together physically to drive innovation.

Organize learning events that spark creativity and curiosity
- Convene diverse teams of relevant stakeholders in friendly learning environments.
- Focus on the application of ideas and leverage multiple learning channels to create variety, including reading, site visits and role-playing.

Launch large-scale, online brainstorming events
- Provide advance materials for preparation and encourage people from every corner of the organization to openly explore and surface ideas.
- Leverage workflow and data mining technologies to uncover and route ideas.
- Follow up on sessions by refining top ideas and holding further brainstorming.

Design creative workspaces
- Increase opportunities for people to brainstorm in open, technologically-enabled spaces that easily evolve to fit quick-changing projects and teams.
Provide incentives and recognition

“You have to look at the philosophical disposition of your organization to create the right recognition program...I think that your program has to be woven into the scheme of your overall recognition program. I don’t think you just say, ‘Okay, we have an innovation award now.’ You have to institutionalize things repetitively so that it becomes part of the culture.”

— Senior Vice President HR, global electronics company

Our research confirms the work of others in concluding that motivating employees to innovate involves more than simply providing economic incentives. Instead, it involves managing and integrating a balance between recognition and incentives with the inherent passion of your people and the vision of your organization.

Leading organizations use a number of different mechanisms to recognize innovation within their organization. These include formal evaluations like those at General Electric, where the top 5000 managers are rated on growth traits that include external focus and imagination and courage. Recognition clubs include Nokia’s “Club 10,” which each year inducts engineers with at least 10 patents in a formal awards ceremony hosted by the CEO. Google motivates with time, allowing its research scientists to spend 20 percent of their time working on projects of their own choosing. 3M uses money in the form of “Genesis Grants” to scientists who want to work on outside projects. Twelve to 20 Genesis Grants are awarded each year, ranging from US$50,000 to US$100,000. None of these examples reflects a straight financial incentive, but instead, they reflect the vision and values of each company.

While certainly there is a place for variable compensation, recent research by Tony Davila from Stanford University indicates that beyond certain thresholds, increasing levels of variable compensation can actually result in lower innovative performance. In fact, for several of our respondents, exposure and career advancement appear to be as important as money in terms of driving innovative behavior. According to an executive vice president of a financial services company, “What is greater than money is career promotion. Innovation can leapfrog people into an opportunity to lead and to get more responsibility.”
Motivate for results: Key takeaways

Understand the components of motivation
• Find the right balance of recognition and incentives within your culture and build those programs to enhance, but not override, the natural passion and vision of your people.
• Combine monetary rewards with recognition programs and other non-monetary rewards that your people value.
• Build loyalty and unleash creativity by allowing people to work on projects of their own choosing for specific, limited amounts of time.

Don’t let variable compensation hijack passion and vision
• Avoid allowing people’s focus on optimizing their variable compensation to override their adherence to company values and their own passion to perform.
• Constantly monitor for signs that incentives have too narrowly focused the innovation lens and periodically adjust.

Formalize the recognition of innovation in performance reviews
• Evaluate personnel on their openness to innovation, whether as innovators or enablers and implementers of innovations.

Checkpoint: On the innovation path

While there are no quick fixes when it comes to changing cultures and climates, dedicated leaders can use our model to create a plan and a more orderly pathway to the future. As a first step toward helping your people get their ideas on the table, think through your answers to the following questions:

Setting the stage
• How can you help your people understand your strategy and why you need them to be more innovative?
• How do you encourage controlled risk-taking and experimentation?
• What is your plan to leverage diversity in your organization – age, ethnicity, experience, culture – to bring out the boldest and most varied ideas?
• Do your board and next generation of leaders reflect the geographic breadth of your organization or only your headquarters?

Taking action
• How effectively do internal teams collaborate, and with which supporting tools, structures and processes?
• How often do you look outside your organization for ideas and capabilities?
• To what extent are your employees engaged in cross-functional teams, communities of practice, learning events and large-scale brainstorming events?
• Which technologies do you leverage to understand your social networks and fuel global collaboration?

• How often do you revisit incentive and recognition programs to align them with strategic objectives, as well as to offer rewards that employees value most?

Top business leaders believe that innovation – more open, collaborative, multidisciplinary and global than ever before – is the key to business survival in the 21st century. However, unsupportive cultures and climates can present a formidable barrier to innovation. We believe it’s vital for CEOs and leadership teams to lead the way to create an innovation-friendly work climate and organizational culture.

To learn more about this study and the IBM Institute for Business Value, please contact us at iibv@us.ibm.com. For a full catalog of our research, visit: ibm.com/iibv

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